BIP – A New Direction

Business Incentive Policy

A Discussion Paper

Government of the Northwest Territories

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DISCUSSION PAPER
BUSINESS INCENTIVE POLICY – A NEW DIRECTION

Introduction

The Business Incentive Policy (BIP) is an economic policy of the Government of the Northwest Territories (GNWT) that applies to any procurement contract entered into directly by the GNWT, with the exception of employment contracts. The BIP also applies to any procurement contract entered into where 51% or more of the funding for the contract, or for the operations of the procuring organization, is provided by the GNWT. Generally this means it applies to GNWT departments, GNWT funded boards and agencies, and NWT municipal/community governments receiving at least 51% of their operating funds from the GNWT. A copy of the current BIP is attached as Appendix A.

The BIP requires procurement authorities to make purchases below a certain threshold only from approved northern businesses. For procurement over these thresholds it requires the procurement authority to make preferential adjustments to bids of approved northern and local businesses during the bid evaluation process. Pursuant to the BIP, a Registry of approved northern businesses is maintained by the GNWT.

The BIP has been in place since 1984. Its original purpose was to:

> *"... provide an incentive to Northern contractors in order to promote the use of northern labour and materials purchased in the North and to encourage the development and competitiveness of Northern Business."*

Over the last sixteen years the BIP has underwent a number of changes. The current BIP has as its stated purpose to:

> *"... provide an incentive to northern business in order that northern business is able to:*

(1) provide goods and services to government, the private sector and the general public at a reasonable price, and
(2) provide financial support, through the reinvestment of corporate earnings, to the northern economy."

It is relevant to note that over the past 16 years, the NWT economy and small business community have grown and developed, new industries have emerged, and the role and relative size of government has changed. With division of the NWT in 1999, our economy changed again.

Recently, new economic direction to the government has been issued by the 14th Legislative Assembly in its document, "Towards a Better Tomorrow" and NWT stakeholders have provided economic policy advice through the *Common Ground* strategy.

The Issue

The Business Incentive Policy (BIP) has drawn sustained criticism for many years and from many parties. Some of the more prevalent criticisms are:

- The BIP does not meet business development needs,
- The BIP has not kept pace with changes in the NWT economy,
- The BIP definitions of northern businesses allow abuse of the spirit and intent of the policy,
- The costs and benefits of the BIP are not or cannot be quantified,
- Training and employment objectives are not adequately addressed in the structure of the BIP.

Numerous reviews have been done of BIP but none of these reviews has resolved the issues raised.

There is a pressing need to review the BIP in light of new policy direction, economic changes and long standing issues.

This paper:

- Identifies the GNWT's current economic vision, priorities, goals and strategies that form the direction against which BIP will be reviewed;
- Poses the questions that the review will try to answer;
- Within an analytical framework addresses the questions raised;
- Identifies key issues and principles that should guide any changes to the BIP;
- Examines the current BIP and potential changes;
- Presents conclusions for discussion.

Economic vision, priorities, goals and strategies

The 14th Legislative Assembly identified in its direction document, "Towards a Better Tomorrow" the following economic vision statement:

> *"A diversified economy, which encourages investment and growth in all sectors."*

"Towards a Better Tomorrow" also identifies relevant priorities, goals and strategies.

Priority

A northern-controlled economy that is balanced, diversified, stable and vibrant.

Goals

A healthy and diversified economy providing employment opportunities for Northerners in all communities.

In the shorter term, some results we would like to see include;

- *People having the skills necessary to enter the workforce or go on to higher education,*
- *Post-secondary education and training that meets the needs of Northern residents and Northern employers,*
- *More businesses starting and/or choosing to locate in the NWT.*

In the longer term, results that would support this goal include;

- *Increased Northern control over northern development,*
- *Northerners making career choices that suit their lifestyle and personal priorities,*
- *Value-added opportunities increasing the NWT's economic diversity.*

Strategies

Anticipating and maximizing economic and career development and career opportunities for Northern People.

- *Link jobs with specific education and training in partnership with the private sector,*
- *Improve the quality and relevance of the education system,*
- *Promote a positive investment climate by streamlining the regulatory regime and completing a Northern Accord,*
- *Improve government policies related to economic development,*
- *Pursue value-added industry in all resource sectors,*
- *Promote export of tourism, products and services,*
- *Ensure communities and regions get a fair share of economic opportunities,*
- *Balance environmental considerations with social impacts and economic development.*

Review Questions

The above composition of vision, priorities, goals and strategies provides the direction against which existing policies such as BIP must be evaluated. As a result, this review should answer the following questions:

1. Is BIP consistent with current GNWT vision, priorities, goals and strategies?

2. As its structured, does BIP deliver these results in an efficient and effective manner?

3. Are there alternative approaches that would be more cost effective?

The Analysis

1. Is BIP Consistent with current GNWT vision, goals, priorities and strategies?

To determine this we must first look at the attributes the GNWT has stated the NWT economy should possess. Distilling down the direction in "Towards a Better Tomorrow" we can determine that these attributes are:

- Diversified (i.e. encompassing primary and secondary production with a developed service and retail sector),
- Vibrant (i.e. sustained growth),
- Balanced (i.e. not overly dependent on any one industry or sector),
- Stable (i.e. not artificially propped up, capable of competing in an open market, not hugely impacted by boom/bust cycles or downturns in any one sector),
- Employment focused (i.e. generates employment to match NWT Labour Force growth and provides entry and training opportunities for NWT residents),
- Northern controlled (i.e. allows pace and nature of economic growth and development to be managed by institutions based in the NWT and controlled by NWT governments),
- Investment friendly (i.e. capable of attracting private investment of sufficient magnitude to yield economic activity and growth that allows the NWT to be self-sufficient).

The current BIP purpose is:

> *"... to provide an incentive to northern business in order that northern business is able to:*

(1) provide goods and services to government, the private sector and the general public at a reasonable price, and
(2) provide financial support, through the reinvestment of corporate earnings, to the northern economy."

Discussion

(1) provide goods and services to government, the private sector and the general public at a reasonable price.

Looking at the first component of the BIP purpose, there should be little argument that enabling northern business to provide goods and services to government, the private sector and the general public at a reasonable price is a worthy goal. But is it clearly reflected in one or more of the attributes Towards a Better Tomorrow identifies for the NWT economy? It may be argued that it relates to having a stable economy, to the extent that stability is partly derived from economic competitiveness, and to be competitive northern businesses would have to provide goods and services at reasonable prices. However, if a government incentive is required on an ongoing basis to maintain reasonable prices, then fundamentally the business is not competitive and the desired attribute is not achieved.

Enabling northern businesses to offer reasonable/competitive prices to all their clients through a GNWT provided incentive on GNWT procurement is also a very large undertaking. This becomes even more apparent when we consider that the BIP only applies to GNWT purchasing or purchasing done with at least 51% GNWT funds. As GNWT non-wage spending contributes about 7% towards NWT GDP at Factor Cost (the measure of the size of the NWT economy), it would suggest that an incentive of very substantial proportions would be needed to affect the pricing of the remaining 93% of NWT economic activity. Clearly this stated purpose of BIP appears well beyond its capability. The type of economic competitiveness envisioned in the purpose statement could not be achieved by bid preferences on 7% of economic activity. However, other tools available to government may be much more affective in reaching this goal.

(2) provide financial support, through the reinvestment of corporate earnings, to the northern economy.

With regard to the second component of the BIP purpose, that dealing with reinvestment of corporate earnings, we see a closer link to the desired attributes of an NWT economy. Certainly reinvestment of corporate earnings may contribute to a diversified economy, a vibrant or growing economy, and a balanced economy. At a later stage in this analysis we will be considering whether BIP as it is structured is an effective tool for achieving these desired attributes, but for now it is enough to conclude that the BIP purpose of facilitating reinvestment of corporate earnings is consistent with Towards a Better Tomorrow.

Conclusion

The BIP purpose of providing an incentive to northern business in order that northern business is able to provide goods and services to government, the private sector and the general public at a reasonable price is well beyond the capabilities of a bid adjustment mechanism applying to government funded procurement and is not consistent with the GNWT's economic vision, priorities, goals and strategies.

The BIP purpose of providing an incentive to northern business in order that northern business is able to provide financial support, through the reinvestment of corporate earnings, to the northern economy is consistent with Towards a Better Tomorrow.

There is a need to revise the purpose of BIP to support current economic vision, priorities, goals and strategies. This will be addressed later in this paper.

2. As its structured, does BIP deliver these results in an efficient and effective manner?

With respect to its first purpose of enabling reasonable prices, we have established above that BIP is not capable of achieving this. It affects too small a portion of NWT economic activity and requiring provision of an ongoing incentive to be competitive is inherently contradictory.

Moving on to the purpose of enabling reinvestment of corporate earnings in the northern economy, we can put our minds to the question of the BIP's efficiency and effectiveness for this purpose.

Discussion

The BIP provides for either restricted tendering or provision of bid adjustments to approved northern businesses during the bid evaluation stage of a business transaction. There is a long chain of events to follow from this bid adjustment stage to the determination of corporate earnings and reinvestment intentions. Corporate earnings and reinvestment are heavily influenced by many factors in this chain of events such as prevailing market conditions, industry profit margin norms, the competitiveness and efficiency of the business, quality of project management, relevant taxation policy, owner withdrawals, shareholder dividend practices, and existence of reinvestment opportunities.

Restrictive tendering and bid adjustments may affect the level of reinvestment, but given the number of other factors that impact reinvestment in the business chain, it would be a tenuous linkage at best. As will be discussed later there are other tools available to government that may better promote reinvestment.

Conclusion

The current structure of the BIP does not contribute to its intended results in an efficient and effective manner. It is not possible to demonstrate a direct link between application of the BIP and the level of reinvestment in the NWT economy by those companies benefiting from BIP application.

Given that the current BIP is not entirely consistent with "Towards a Better Tomorrow" and that it is not achieving its intended results in an effective and efficient manner, there is a need to restructure BIP.

3. Are there alternative approaches that would be more cost effective?

In essence, what we are asking here is what purpose should a BIP serve. What results is a business incentive program most effective at achieving? As we have seen from the foregoing discussion, if the BIP just addresses government procurement and only provides for restrictive tendering and bid adjustments on government contracts, then its economic impact is going to be small. So how can a business incentive program be expanded to affect a larger part of the economy, and how can it be redesigned to achieve more of the GNWT's economic vision, priorities, goals and strategies?

Addressing these issues will consume the balance of this paper for they are at the heart of our concerns. To address the matter in an organized way we will:

- Broadly review the tools governments have to achieve their objectives,
- Analyze the NWT economy and what is needed for its successful development,

- Assess which of these economic needs a business incentive program can best address,
- Discuss the considerations relevant to design changes to BIP, including:
  - Principles,
  - Current Issues,
  - Recent developments in the economy, and
  - Weaknesses in current BIP design.
- Propose and discuss design changes to BIP, and
- Present conclusions.

The Tools Governments Have

To further its economic objectives any government has a finite set of tools to work with. Basically these tools are:

1. Government's legislative and regulatory power – subject to trade agreements the government must adhere to, it can establish a legislative and regulatory framework that can create an environment that facilitates or restricts employment and business development. Current goals tend to be to ease the legislative and regulatory burden on business while fostering responsible growth and development.

2. Government's spending power – governments have two types of spending power to support employment and business development and growth. The first is spending on direct support programs in the nature of grants, contributions, loans and guarantees. Usually these types of support programs are of finite duration. The second type of spending power is government contracting policies and practices. Through preference policies and contracting practices governments can bestow on targeted employment sectors and businesses some form of advantage that promotes employment, business development, growth or diversification. However, these types of preference policies often find themselves at odds with trade agreements and accountability obligations.

3. Government's taxation power – governments generally have the right to raise revenue through taxation. The tax policy, structure and rates implemented by governments not only raise revenue but advance particular economic and fiscal objectives. Whether it is to encourage investment in and development of particular sectors, or to promote research and development spending, government taxation power is a significant tool for achieving employment, business development and growth goals.

4. Government's negotiating power – government's ability to negotiate particular concessions with industry or other groups in a multitude of situations stems from its other powers of legislation, regulation, taxation and spending. Socio-

economic agreements negotiated in conjunction with mega-developments are one example of government exercising its negotiating power.

Each of these economic policy tools work well under certain circumstances and for particular purposes. The trick is to choose the right tool for the job, and then use it with skill in the right way.

The NWT Economy and its Needs

It may be worthwhile to again review the economic attributes the GNWT has stated it wants the NWT economy to possess.

Attributes

Diversified
Vibrant
Balanced
Stable
Employment Focused
Northern Controlled
Investment Friendly

So what is the right way to use the tools we have to achieve these attributes in the NWT economy? Perhaps the best way to answer this question is to first start with identifying what the key ingredients are for the successful development of an economy, ours in particular. If we know what is required to bring about the results we are striving for, then we are better able to select the right tool and use it in the right way.

The analytical framework for answering the question of what is necessary to successfully develop our economy was first presented in the GNWT draft Economic Framework document (Appendix B). This Economic Framework identified the key ingredients for economic success, and flagged the areas in the NWT economy where these ingredients were currently deficient.

For purposes of this paper it will be assumed that the analysis in the Economic Framework of what was needed to facilitate development of a successful economy was reasonably accurate. Certainly, a review of this needs analysis today identifies no apparent flaws in the analysis. It will be further assumed that addressing the needs identified in the Economic Framework will lead to achievement of the economic attributes identified in Towards a Better Tomorrow. This is a reasonable assumption given that the desired economic attributes that have been identified have a very strong correlation to the key ingredients and needs analysis presented in the Economic Framework.

Economic Framework - Key Ingredients

Natural Resources
Human Resources
Investment Dollars
Infrastructure
Markets
Regulation and Taxation

Natural Resources

The NWT has an abundance of natural resources including minerals, oil and natural gas, hydro-electric generation potential, natural attractions, and wildlife. Needs are:

1. Clearly articulated policies for the utilization of resources (subsistence, commercial, export, value added) to ensure that development initiatives provide maximum benefit to northerners and facilitate the allocation of government funding to specific sectors and uses.
2. Comprehensive resource inventories and ongoing monitoring to encourage resource exploration and development and facilitate decisions regarding resource utilization.
3. An effective means of assigning value to renewable resources to facilitate decisions regarding utilization.
4. Increased access to land for exploration and development.

Human Resources

The NWT has a significant workforce and it is growing rapidly. However, many residents lack formal education and job experience necessary to access jobs that are available or will become available. Needs are:

1. Increased levels of basic education to increase employability
2. 2. Training for job specific, technical skills
3. Entrepreneurial and business management training
4. More programs that provide work experience.
5. Innovative training methods and easier access to training
6. Occupational standards

Investment Dollars

Large developers usually have access to capital for investment if the business case is there for a particular development or project. However, small businesses or businesses starting up with little track record have a much harder time finding equity capital and securing debt financing at reasonable rates. Needs are:

1. improved access to debt capital, particularly in smaller communities through increasing awareness of programs, simplifying procedures and better coordination.
2. A rigorous, disciplined approach to help proponents identify viable development opportunities that will attract adequate investment dollars,
3. Leveraging other sources of financing to enhance existing resources,
4. Flexible financing and repayment arrangements to accommodate the seasonality of many development opportunities,
5. Partnerships between communities and funding sources to ensure that funding decisions reflect community profiles.

Infrastructure

A major barrier to economic development initiatives in the NWT is the lack of public infrastructure. Needs are:

1. appropriate and affordable public infrastructure to encourage and support economic development opportunities,
2. leveraging other sources of funding to enhance existing resources,
3. alternate forms of offsetting costs (user pay),
4. community infrastructure projects that support community development priorities.

Markets

Finding and developing the appropriate markets is essential for the viability of a sector or a specific development opportunity. Needs are:

1. consideration of local, regional and territorial markets as alternatives to export markets,
2. targeting the production of goods and services to better fit market demand,
3. accurate marketing intelligence in order to design effective marketing and promotional activities,
4. effective distribution networks for goods produced in the NWT,
5. general awareness marketing by the Government. Product specific marketing.

Regulation and Taxation

In many instances, the way regulatory responsibilities are currently carried out has resulted in increased costs, has put unnecessary burdens on business and has created barriers to development. The taxation system, although not particularly burdensome, could be used much more effectively to encourage development and job creation. Needs are:

1. Greater certainty regarding conservation requirements, land access, land leases, division, devolution, land claims, licensing, and land management.
2. Greater clarity with respect to the roles and responsibilities of each level of government and other responsible agencies.
3. Simpler regulatory procedures.
4. Simpler reporting procedures and better information for businesses regarding their responsibilities.

Matching Needs in the Economy to a Business Incentive Program

The Economic Framework presented a broad analysis of the NWT economy and what was needed for its successful development. It identified a range of needs that government would have to address on many fronts. And the government, working with aboriginal governments and other partners, has been doing just that. It has developed sector strategies such as the Non-Renewable Resource Development Strategy. It has engaged the NWT public in development of an economic strategy, resulting in the Common Ground Report. It is working on development of a broad Northern Employment Strategy that will address human resource needs across all economic sectors. There are many other major and minor initiatives that are being undertaken that are intended to address many of the needs identified in the Economic Framework.

But how do we determine which of this vast array of needs BIP should be focused on? The start of the answer is in the nature of the BIP. The Business Incentive Policy is a program that provides direct financial incentives to business. So which of the needs identified in the Economic Framework would be most effectively addressed by direct financial incentives to business?

Natural Resources

If we look at the area of Natural Resources we see needs to develop utilization policies, create resource inventories and monitoring mechanisms, assigning values and increasing access. These all fall into functions of government, so it seems reasonable to conclude that BIP is not the appropriate mechanism to address these needs.

Human Resource Development

In the area of developing NWT human resources we see a different story. The private sector is a major employer and with greater economic development its share of the labour market will only expand. Private sector employment offers many opportunities for work experience, skills development and on the job training. And business needs access to affordable skilled labour so it is a motivated supporter of labour force development. The government is also active in this area with its responsibilities for primary, secondary, post-secondary and adult education. The result is that the private sector and government are currently both active in labour force development, often working in close partnership.

However, the private sector must be competitive to survive. It can provide jobs and work experience but its investment ability in labour force development will always be limited by market factors. In well established and profitable industries, more in the way of labour force development can be expected of the private sector (e.g. socio-economic agreement with diamond mines, BHP literacy initiative). But in small emerging businesses, or during periods of weak sectoral performance, profit margins are small and labour force development investments are often beyond the reach of the company. This seems an appropriate place for government to apply incentives (e.g. labour subsidies, direct training support) to achieve labour force development objectives.

Investment Dollars

Perhaps one of the most traditional areas of government activity is that of supporting business access to equity and debt financing. The federal government is active through the Federal Business Development Bank and a host of regional and sectoral economic development programs. Through DIAND a number of aboriginal development funds are also provided. The GNWT has the Business Credit Corporation providing loans and guarantees, the NWT Development Corporation providing equity investments, Community Futures providing regional financing, the FMBS providing guarantees for secondary diamond manufacturing, and the Department of Finance sponsoring investment tax credit initiatives. The GNWT has also brought private investors and financiers to the NWT with initiatives such as the Aurora Funds (immigrant investors programs).

When it comes to addressing the economy's need for investment dollars, it appears that there is a role for government, but it takes the form of direct provision of equity or debt financing either through loans or guarantees. Alternately, the tax system is used to encourage private investment. These forms of supports or incentives are direct and measurable as to their success in generated investment. As discussed earlier a business incentive program based on restrictive tendering or bid adjustments appears too far removed from investment needs or reinvestment intentions to be an appropriate means of addressing this need in our economy.

Infrastructure

The business sector is actively engaged in investing in business infrastructure. If a strong business case can be made for a tourist lodge, a hotel or restaurant, a supply warehouse, garage or hanger, a manufacturing plant, a telephone line or satellite link, or a resource access road business will generally make that investment without public incentives. But public infrastructure that improves resident quality of life, cost of living, or provides other societal benefits is the purview of government and is financed through taxation and user fees.

Often, an investment in public infrastructure provides benefit to such a broad section of the population that it can only be justified and financed through the co-ordinated means available to government. Alternatively, public infrastructure investment may have economic return so far down the road that only government can get financing for the investment return risk involved. Both of these reasons suggest that most major public infrastructure investment will have to be made directly by government and that business incentive policies would have little application in this area.

Markets

Both governments and business are active in market development. Often government supports this development by direct support to the business sector (e.g. financing tourism associations, financing market research, research and development grants or tax credits, etc.). So business incentives do play a role in market development. Perhaps the most relevant question would be how to best design such an incentive including selection of the most appropriate tool (e.g. purchasing power, direct support or the tax system).

Regulation and Taxation

Legislation and regulation is the purview of government. Certainly how legislation and regulation is designed and applied has a major impact on economic development and the business community, but it is not an area that would lend itself to some sort of direct business incentive approach (e.g. regulatory holidays, compliance grants, etc.). Legislation and regulation are generally implemented to protect the public interest in the environment, in safety and security, in public health and consumer protection, etc. These are not public interests that can be put aside or foregone to provide an incentive to business.

However, taxation is a very different matter. Taxation can be used to discourage undesired behavior (e.g. "sin" taxes on alcohol and tobacco), it can be used proactively to encourage desired behavior (e.g. investment tax credits), or it can be used in a more general way to raise revenue for public purposes or redistribute wealth. The tax system, used well, is an effective tool for supporting business and economic development. Perhaps one of the most powerful economic tools available to government.

The taxation system is certainly a mechanism that can be used to provide business incentives.

Conclusion

A business incentive program has the highest potential to be an effective economic development tool in the areas of human resource development, business infrastructure investment and market development. The taxation system is one of the most effective means of providing business incentives and encouraging desired business behavior. However, given current financial arrangements with the federal government respecting federal funding support, royalties, and other factors affecting mega-resource development, the GNWT is fairly limited in which sectors of the economy it can directly support.

Design Change Considerations

With the conclusion that BIP in its current form has neither a purpose that works well or a design that is effective, we must consider changes to the program so that it is properly focused and designed. In doing this we must take into account the foregoing analysis and also principles and issues that we believe are relevant.

Principles

Although the following principles have yet to be adopted by decision makers, we present them as appropriate to the design of a business incentive program. They are designed to be congruent with the economic attributes articulated in Towards a Better Tomorrow.

1. Government 's role is primarily to create the right environment for business development and growth. The private sector role is to identify and develop business opportunities.
2. Where government provides direct support to business development and growth it should be well targeted with specific measurable objectives. The costs and benefits of this support must be identified and reported publicly.

3. Government policies and practices must conform to trade agreements it is subject to.
4. Government policies and practices should enhance development of a competitive economic environment.
5. Government policies and practices should be structured to minimize economic leakage outside the NWT.

Issues

Through various reviews over the years as well as current feedback and criticism of the existing BIP, a number of issues have been raised that should be addressed in any design changes to BIP.

1. Measurement of cost and benefit - the current BIP has proven to be extremely difficult to apply quantitative analysis to. No true cost can be estimated and benefit yields have been hard to determine. As a result, we are left with anecdotal evidence and unverifiable opinions on the benefits derived. Any redesigned program must have clear measurable objectives and lend itself to determination of costs and benefits.

2. Unintended Impacts - the provisions of the current BIP which restrict tendering and provide for bid adjustments, have produced unintended impacts such as suppliers being eligible for an incentive on southern sourced goods and being able to bypass northern manufacturers. In addition, the BIP Registry is being used by more than the BIP administrators and has become a widely used reference when determining who are northern businesses. It was not intended for broader use and this use has unintended impacts (e.g. use for socio-economic agreement monitoring which has resulted in flawed northern benefits reporting). Any new business incentive program must address the issues around the BIP Registry and its use.

3. Policy definitions of northern business - Current ownership-based criteria to be eligible for BIP can discourage new investment and is difficult to police. The focus on ownership does not address continuing complaints over use of non-NWT or non-local labour by BIP approved northern companies. There were also cases where ownership was structured to technically meet BIP requirements but businesses effectively remained non-northern.

4. Variation of Regional/Community impact - Although BIP provides a differentiated incentive for local firms over non-local northern firms, the policy has had less impact in small communities because their economies are smaller and the impact of government spending alone has less ability to make a business venture viable.

5. Changes in government spending and its size relative to the economy – the GNWT is spending more and more of its budget through third parties who

may have their own purchasing policies or may not apply BIP consistently. Monitoring and enforcement are real issues. In addition, government spending as a percentage of economic activity is shrinking so its purchasing policies do not have the overall effect they have had in the past. As noted previously, GNWT non-wage spending is only around 7% of GDP and this percentage will continue to decline as private sector based economic activity increases and as more government functions are assumed by new self-government institutions or alternate delivery mechanism. For the firm relying on GNWT purchasing for a major source of its annual revenue, it will become imperative that new markets for its products be established and new customers be pursued.

In the process of redesigning a business incentive program it is also relevant to identify the current state of the economy as a base line and as the environment in which your new program will be applied.

Recent Developments in the NWT Economy

The following highlights some recent developments in the NWT economy using a focus on strengths and weaknesses.

Strengths

- Mineral and oil and gas development offers tremendous employment and business potential. The natural resource sector will continue to lead development.
- The number of small businesses, and the range of products and services they offer, has grown over the years. Competitiveness has also increased both within the NWT and between southern and NWT companies.
- There are diversification opportunities in tourism, small business, value added diamond processing, and oil and gas servicing areas.
- The growth and maturity of community and regional aboriginal development corporations has been considerable and now greater business skills exist as well as investment equity in this sector.
- There is greater support for resource and business development in the NWT provided it is done responsibly and northerners participate and benefit substantively.

Weaknesses

- There are a high number of unskilled workers, especially in light of employment potential in the minerals and oil and gas sectors. Industry may import labour, while local unemployment remains high. Youth unemployment remains particularly high, especially in smaller communities.

- Tradespeople are in short supply, but training opportunities and facilities to provide training are limited.
- There are disparities in regional development opportunities as well as opportunities between communities. Small communities continue to suffer high unemployment.
- Resource development can result in boom and bust economies. Business and labour must be able to seize opportunities as they arise.
- Small businesses are often not equipped to deal with the scope and scale of development opportunities. Local capital is limited at a time when new investment is required to take advantage of new opportunities.

Design Alternatives

With the preceding analysis and conclusions, and in consideration of the principles, issues and economic factors identified we are ready to look at design alternatives. The first step in identifying design alternatives is to critique the existing design using our analysis, principles, issues and economic factors.

Weaknesses in the Current BIP Design

The existing design of the BIP consists of:

1. a requirement to purchase goods and services under $1,000 only from approved northern business.
2. a requirement to tender for goods and services under $30,000 by invitational tender only to approved northern businesses when there are two or more approved northern businesses capable of supplying that good or service.
3. bid adjustments to the northern content component of the tender or proposal of approved northern businesses. This bid adjustment is 15% for northern content and an additional 5% for local content.
4. maintenance of a registry of approved northern businesses meeting specified eligibility criteria.

In essence, the restrictive tendering for contracts under $30,000 removes the ability to ascertain "benchmark" prices for GNWT purchases of goods and services in this range. This makes determining the premium that may be inherent in this approach very difficult. It also can lead to the development of a non-competitive economic sector or sectors in the NWT. This situation is added to by informal practices that have developed in GNWT procurement whereby most advertising, regardless of value, is only done in NWT media. These practices, combined with the market's knowledge of the bid adjustment provisions of the BIP and the highly publicized use of negotiated contracts, have created an almost defacto absolute northern tendering restriction for GNWT contracts. Even ignoring the implications of this with respect to both the letter of and spirit and intent of the Agreement on Internal Trade (AIT), we must assess if this is consistent with policy direction and principles. To do this assessment we should address each feature of our current tendering and bid adjustment provisions.

a) restrictive tendering

In our preceding analysis we have identified that current policy direction is to create a stable competitive economy. If tendering practices insulate NWT businesses from actual market realities then it is hard to envision how a competitive business sector would be encouraged to develop. Even in those sectors where multiple NWT businesses compete, there is no broader competitive benchmark to measure economic efficiency on the scale of the national and global market. This is particularly problematic considering that GNWT purchases account for only 7% of NWT GDP. If GNWT tendering practices create a dependency on only GNWT purchasing, then how can we achieve our economic objectives of a vibrant (growing), diversified and balanced economy. As discussed in the "Issues" section of this paper GNWT spending is a declining economic sector, not a growth sector. This type of "protected" economy can also discourage new external investment in the NWT as it is focused on protecting existing businesses not promoting new entrants into the economy.

And what of the other 93% of economic activity in the NWT? The GNWT may be willing to restrict its tendering and ignore competitive benchmarks, but it is unlikely other buyers are. Even if those buyers are subject to BIP or agree through northern benefits agreements to northern purchasing, if they are not confident of value for money they will be motivated to circumvent or "work around" restrictive tendering provisions. No monitoring or enforcement mechanism is fool proof, so purchasing policies and agreements must rely heavily on co-operative compliance to be effective.

Irrespective of bid adjustments or other policy provisions, a regime of restrictive tendering is neither consistent with the government's economic direction to create a growing, competitive and diversified economy, or consistent with principles of transparency and accountability for the costs and benefits associated with the policy. There may be a cost argument for not broadly advertising contracts below AIT thresholds ($25,000 for goods, $100,000 for services and $100,000 for construction), however, adoption of a web-based tender and proposal call repository would reduce advertising costs of posting tender and proposal calls.

b) bid adjustments

Bid adjustments are applied at the contract award stage of an economic transaction. They apply to the "northern content" portion of the bid price. They are intended to "level the playing field" so that northern based businesses that are paying the higher costs of a NWT based operation are not competitively disadvantaged over their southern located competitor. These higher operating costs generally include:

- higher costs of maintaining and operating NWT located business infrastructure (e.g. offices, workshops, warehouses, retail space, garages, etc.);
- higher cost of employing NWT residents at higher wage rates (e.g. those employed in supporting the business operation and in providing NWT based value-added services); and,
- higher cost of using NWT resident companies for business support needs (e.g. communications, accounting, legal, advertising, etc.).

This bid adjustment approach creates a number of challenges.

1. How to determine which operating costs should be accounted for in the bid adjustment.
2. How to determine what the cost differential is between southern and NWT based operations.
3. How to identify and eliminate from the adjustment those contract costs that are common to both southern and northern suppliers (e.g. southern sourced materials, supplies and labour, finance and interest costs and other cost inputs that are subject to national pricing levels, ROI or profit components of contract costs – northern companies should not get a higher rate of return as the rate of return will already be on the higher northern cost base).

1. How to determine which operating costs should be accounted for in the bid adjustment.

The current BIP tries to address the first of these challenges in its definition of "northern content" which is defined as:

> *"... the dollar value of the goods and services required by the contract supplied by any northern business or northern supplier. Northern content may include:*

(a) goods and services supplied by a northern business or northern supplier acting as the general contractor. These are referred to as "own forces".
(b) Goods and services supplied by any other northern business or northern supplier so long as these goods or services are required for the completion of the contract and are paid for by the contract."

The BIP also defines "northern supplier" but leaves a fair amount of ambiguity as to where goods or services are actually sourced from. The BIP definition of northern content is very general and relies on who provides the goods and services as opposed to where they are sourced from. In other words, as long as the goods or service is provided by a northern business or supplier, the BIP does not look deeper down as to where that good or service actually originated and what level of NWT value added is present. The definition also does not specifically address the cost components that give rise to a higher cost of doing business with a NWT based operation as opposed to a southern based operation. No segregation of company overhead costs, or NWT based contract support costs is performed. So what we currently have is an ambiguous measure that may or may not address the issue.

2. How to determine what the cost differential is between southern and NWT based operations.

With respect to the second challenge, the BIP does not attempt to actually measure the cost difference between southern and northern contract cost inputs, rather it has set an arbitrary 15% bid adjustment to generally "level the playing field". Whether this level of premium does the job is not known.

3. How to identify and eliminate from the adjustment those contract costs that are common to both southern and northern suppliers

With respect to the third challenge, the BIP largely ignores the issue over eliminating common cost components. The definition of northern content is simply too general to address this challenge. Both a southern and northern contractor may require culverts to do a job, but if the culvert is purchased from a northern culvert supplier, who may provide no NWT based value-added, the northern business gets the bid adjustment on the culvert cost. If both the southern and northern contractor require gravel that will be sourced from an NWT pit with the same per yard fee, the northern contractor will get the bid adjustment on the fee while the southern will not. If both the northern and southern contractor must incur financing costs of work in progress and likely pay the same interest rate the northern contractor will be able to work this into their cost base that will get a bid adjustment, the southern contractor will not. This analysis should not be construed as advocating for southern contractors as all it attempts to do is ask the question, "are we providing bid adjustments that have nothing to do with levelling the playing field?".

In concluding this brief look at bid adjustments it appears the bid adjustment as currently structured is not an effective tool for "levelling the playing field". First, the bid adjustment only applies to GNWT procurement which we have already identified as comprising only 7% of GDP and as a component of our economy is shrinking. Second, we may be compensating for southern sourced goods, services and labour, and not compensating for true higher northern based operating costs. Third, we may be encouraging complex machinations to secure designation as an approved northern business and then northern content sourcing games to acquire bid adjustments. This results in an administrative and enforcement nightmare. Administratively, the status of a proposer must be determined vis a vis complex eligibility criteria, bids must be analysed for their northern content, and then contract performance must be monitored to verify the actual northern content proposed is achieved. And where the bid northern content is not achieved, then recourse must be sought. There is little actual recourse available.

The objective of levelling the playing field while northern business builds capacity to compete independently is valid when compared to our economic direction, but the tool we have selected appears to be the wrong tool. The bid adjustment is complex, prone to manipulation and only applies to 7% of economic activity. The taxation system may be a more effective means of levelling the playing field and could apply to all NWT economic activity. In addition, if government wishes to use its spending to encourage labour force development, it may be preferable to use a more direct incentive such as a northern labour rebate. These concepts will be explored later in this paper.

c) northern business registry

The Business Incentive Policy itself spends upwards of 8 out of 17 pages:

- addressing definitions of a northern business,
- providing grandfathering provisions,
- defining owners and qualification committees,
- setting out eligibility criteria, and then
- establishing a senior management preference committee and an advisory committee to the senior management preference committee and regional qualification committees, and a monitoring office.

The superstructure to administer BIP is complex and significant and thus prone to problems. Much of the criticism from the business community is centered around definitions of northern businesses, compliance with these definitions and use of the BIP registry as an authoritative source for determining who is a northern business for purposes other than administration of BIP (e.g. northern benefits reporting under socio-economic benefits agreements).

If the GNWT eliminates restrictive tendering and the bid adjustment process, and replaces these with more effective business supports, then the maintenance of a BIP registry becomes unnecessary for government procurement purposes. However, there is still a need to define a NWT business for other purposes, such as application of negotiated northern benefits agreements with industrial developers. But there may be less complex and more accurate means of determining who is a northern business.

The elimination of restrictive tendering and bid adjustments may appear inconsistent with GNWT insistence that industrial developers commit to hiring NWT residents and providing contract opportunities to NWT businesses. But there is no inconsistency. The GNWT is committed to NWT employment and business support, but by using tools that are more effective for a government entity trying to support broad based employment and business development goals. For industrial developers, the only meaningful way of supporting retention of NWT benefits from development of NWT resources is through local training and hiring commitments and through provision of contract opportunities to local businesses.

Critique Conclusion

In concluding this critique of the existing BIP design, we find that the restrictive tendering aspects of BIP are not consistent with government's economic objective of creating a competitive business community as it results in protecting from competitive forces 7% of NWT economic activity. So neither in theory (promoting development of a competitive capacity) or in practice (applies to only 7% of economic activity) can it advance the government's stated objectives. Restrictive tendering is also non-compliant with the principles of transparency and accountability and the spirit and intent of the AIT.

We also conclude that although well intentioned, the bid adjustment is not an effective tool for levelling the playing field between northern and southern businesses as it does not address northern cost differentials adequately. And the BIP Registry requires a significant change in purpose and structure both in defining northern businesses and effectively qualifying them.

Design Changes to BIP – A Discussion

Essentially what we will try to develop is a set of design alternatives that provide us with a business incentive program that is focused on addressing design weaknesses of the current BIP and advancing the government's economic direction, within the capabilities of a business incentive program. Specifically, we want a program that:

- Encourages business to hire, train and develop northern labour to the maximum extent practical,
- By levelling the playing field between northern and southern businesses,

    - Encourages business to invest in market development (e.g. import replacement, business infrastructure development and expansion of existing and new external markets for NWT products), and
    - Encourages business to invest in NWT business infrastructure,

- Provides a competent definition and registry of northern businesses for a variety of economic purposes.

This next section of this paper identifies some of the design alternatives identified to date.

1. Encouraging business to hire, train and develop northern labour to the maximum extent practical.

At the outset it must be noted that government has many programs already directed at this global objective. For example, it provides specific training through Aurora College that has been designed in consultation with industry, it offers apprenticeship wage subsidies, and it provides specific on-the-job training assistance such as with diamond manufacturing. These global labour force development programs are essential to prepare northerners for available jobs and will be continued and refined over time as a basic responsibility of government, which is most effective when undertaken in partnership with industry.

The government has also had success when it incorporated actual training and certification programs into its construction contracts. The most notable example was the Building and Learning Strategy. These programs, however, required direct government intervention into specific contract terms and conditions and government design of the training program components of the contract. This was time and resource intensive. Rather than extend this very interventionist approach to all government contracting, would it be possible to provide a financial incentive that stimulates business to maximize northern hire and be prepared to develop northern workers in concert with performance of government contracts? In theory, this is one of the objectives of the current bid adjustment, but the bid adjustment is a crude and inefficient tool for this purpose.

A look at best practices of other jurisdictions identified an incentive program of this nature operating in Yukon. Although it was based on a broad value-added approach, the basic structure involved providing after the fact rebates to reward companies for achievement of desired Yukon value-added. A similar approach could be used that is more specific to use of northern labour. It would have the advantage of being directly linked to actual northern employment results achieved. It would allow easy calculation of the costs and benefits of the incentive, and thus achieve transparency and accountability objectives. It could be tailored to provide differential incentives for various categories and levels of northern employment to match specific government priorities (e.g. the rebate could be 2% at the 50 % northern employment level and 10% at the 90% northern employment level. It could be 5% for general northern employment, and 15% for northern youth employment or 10% for local northern employment).

This type of labour rebate program has significant attraction to government but would it be effective in encouraging business to hire north? Could it be applied beyond government contracts? How would northern labour be defined? How would results be verified? Should it be restricted to approved northern business? All of these questions need answers, but perhaps the fundamental question is the first one, would it be effective in encouraging business to hire north.

It is often considered self-evident that business will hire north as long as the local labour force is sufficient (enough workers to do the job), skilled (workers with the ability to do the job) and affordable (wage rates or expectations are not out of line with other sources of labour). Hiring closer to the job site means lower labour transportation costs. If the job is in the community where the labour force is it means no accommodation or meal costs for workers. And generally if the workers are hired from the community or region, public relations are better and work proceeds with fewer management issues.

But what if the northern/local labour force is not sufficient, or is not skilled for the specific job, or is too expensive. Then to do the job, business must either;

- import skilled cheaper labour and build a labour transportation and accommodation premium into its contract price, or
- hire northern or local labour and build a time and training (the time premium based on the longer time required to do the job if workers first have to be trained) and wage rate premium into its contract price.

It would appear that a price premium is going to be incurred in either situation, resulting in a higher cost for the product. However, if all contract bidders face the same labour realities, it should not affect their relative competitiveness, although if importing a labour force is less expensive they are likely to choose that alternative.

Given the government's objectives, clearly it would prefer contractors to choose the northern hire and training option. How does government influence the choice? Only by shifting the added cost of the time, training and higher northern wage rate to itself. In doing this, however, the government must calculate the subsidy carefully by ensuring it appropriately values the labour transportation and accommodation costs of importing labour and deducting that from the subsidy for northern employment that it is prepared to make (in reality this will be based more on trial and error than quantitative analysis simply because of the large number of variables and assumptions at play).

Now it could be argued that this "northern labour subsidy" should be incorporated in the tender call and applied at the bid evaluation stage. However, this would require substantive monitoring and enforcement by the government, and the incentive to meet or beat anticipated northern employment targets would be lost after the contract is signed. And what would be the government's recourse if the contractor fell short of northern employment targets. It may be difficult to prove "damage" and punitive contract terms are not enforceable.

The same goal of encouraging northern hiring could be met, and a much greater commitment on the part of contractors to northern hiring could be achieved, with a northern labour rebate approach as described above. The contractor may not take the rebate into account at the bidding stage as they may be unsure of what NWT labour is available at what cost (this would often be the case even in a bid adjustment program). However, knowing the rebate is available to offset the costs of northern hiring, contractors should be motivated to maximize local hiring even if it entails some up-front or on-the-job training. Where northern labour is available at similar costs to imported labour, the rebate could add to profit margins, which is a very direct incentive to achieve the desired business behavior.

A final point on such a northern labour rebate must be one of administrative practicality. On numerous small contracts the labour component will not be of high dollar value, while the administrative requirement to calculate and verify the rebate will still be required. As a result, it is suggested that some minimum threshold would be established below which the northern labour rebate would not be available. In addition, the definition of northern labour must be clear and administratively easy to verify. Various means are available to establish NWT residency and include driver's license, voter lists, health care registration, and SIN numbers combined with prior year tax filings. Each of these options would need to be explored to determine the optimum approach.

2) leveling the playing field between northern and southern business

Many of the current BIP components are targeted at levelling the playing field until northern business can compete on a more equal footing with southern based business. As pointed out earlier in this paper, restrictive tendering and bid adjustments are not effective tools as:

- they insulate northern business from normal competitive factors,
- they do not lend themselves to meaningful cost/benefit analysis, and
- they apply only to the GNWT's non-wage spending which is currently around 7% of NWT economic activity and is steadily declining as a percentage of the economic activity.

Add to this the high administrative burden of bid adjustments programs, the difficulty to police them well, and their unintended consequences, and the arguments are there to consider more effective tools.

In our earlier critique of the existing BIP bid adjustment we identified what needed to be addressed to help level the playing field was the higher cost of operating a business in the NWT compared to southern Canada. In operating costs we included operation of NWT located business infrastructure, employment of NWT overhead labour at higher rates, and NWT based overhead support services. We exclude the direct costs of performing any specific contract or job. These direct costs would either be addressed through the northern labour rebate discussed above, or would be common to any contractor undertaking the work regardless of head office location (e.g. if a piece of heavy equipment needs repair during a contract, both northern and southern contractors are going to incur similar costs to get it fixed on site).

It has already been suggested that perhaps the tax system may be a more effective way of addressing these higher NWT business operating costs. There are a number of ways tax supports could be structured to help level the playing field. Some options are:

Introduce a business operating cost tax credit

This would be the most direct means of partially compensating for the higher cost of operating a business in the NWT. It even has a conceptually close cousin in the federal personal tax system in form of the Northern Resident's Deduction. The tax credit could apply on all business operating costs sourced in the NWT including such items as utilities, advertising, office space and office equipment leases, office materials and supplies, equipment maintenance, etc. It would assist the business in all its revenue generating business, not just business done with the GNWT. The credit would be set as some percentage of these operating costs roughly linked to the cost differential between a representative southern location and the NWT. The tax credit would be applied to reduce NWT tax payable but not below zero (in other words it would not be a refundable tax credit).

In designing a tax credit scheme of this nature it would be necessary to determine who was eligible, and whether income thresholds would be introduced. Options range from making all business income earned in the NWT eligible, to making only business income earned by NWT businesses operating exclusively in the NWT eligible, to making only business income below a certain threshold earned by businesses operating exclusively in the NWT eligible.

Currently the small business tax rate applies to the first $200,000 of income for Canadian-controlled private corporations. A higher corporate tax rate of 14% applies to all business income over the $200,000 threshold, or if the company is not a Canadian-controlled private corporation. If the tax credit applied only to companies whose business income was below $200,000 the tax credit could capture companies with business revenue anywhere from:

- $300,000 or $400,000 for a company with little or no input and overhead costs,
- to a company with millions of dollars in business revenue operating in an industry with low gross margins.

Because of these wide variations in possible company situations giving rise to various income levels, it would be difficult to design an equitable tax credit system. An additional problem with a tax credit of this nature is that it could lead to manipulation of company earnings to qualify for the tax credit. There are numerous ways for this to be done from higher owner wage draws to apportionment of income and expenses between related companies. Perhaps the most serious problem is that a tax credit approach would not be harmonized with the federal tax system. As a result, the federal government, who administers most federal and provincial corporate tax regimes (except Quebec, Ontario and Alberta), would probably not administer it for the GNWT, or only do so at a prohibitive cost. The result is the GNWT would have to set up its own tax credit administration system and eligible northern businesses would have to submit a separate application for the tax credit.

Reduce the business corporate tax rate

A second tax option may be to reduce the NWT business corporate tax rates. This would have a similar effect on after tax income as the tax credit option but would be much easier to implement. However, it would apply to all companies earning and reporting income in the NWT, unless additional eligibility criteria were imposed (e.g. reduce only the small business tax rate). Depending on how restrictive these additional eligibility criteria were, we may run into some of the same federal tax system harmonization problems as with the tax credit approach, or we could find we are running into Charter of Rights and Freedoms issues (e.g.

mobility provisions). However, assuming these problems could be overcome, the remaining issue is one of cost. Changing the small business tax rate from the current 5% to zero would cost the GNWT $1.6 million dollars per year based on the most recent tax year we have results for. This means that this option could directly contribute $1.6 million towards levelling the playing field for northern businesses. Changing the large corporate tax rate from 14% to something lower would add substantively to this cost. In addition, a change to the large corporate tax rate may not capture the real target group we are trying to support in that all companies earning and reporting income in the NWT would be assisted, regardless of where they were located.

Either tax option would not totally compensate for the higher cost of operating a resident business in the NWT. This is simply beyond the financial capacity of the GNWT and would not be sustainable in the longer term. However, support through the tax system has the advantage of assisting NWT businesses in all their revenue generating activities, not just business they may do with the GNWT. This helps them compete for that other 93% of NWT economic activity.

3) improving the definition of a northern business and operation of a registry

We must start any discussion of this issue with acknowledgement that we have a definition of a northern business already, and this definition is included not only in the BIP but also in several socio-economic agreements. In the case of existing agreements, the GNWT cannot unilaterally change definitions. That said, in determining a better approach, the first question we must ask ourselves is why do we care about defining what a northern business is. This needs to be answered in several steps. First, it must be stated that want we really want is to maximize the benefits to NWT residents of NWT based economic activity. Second, we need to define what we consider those benefits to be. For example, benefits would include:

- training and employment of NWT residents,
- retention of business earnings in the NWT (earnings can be retained in the form of GNWT tax revenues, reinvestments in the NWT economy, and net worth increases of northern residents), and
- increased business acumen and competitiveness leading to economic growth.

Third we need to determine what attributes a business should have to yield these benefits.

Training and employment - although any business operating in the NWT can employ NWT residents, what type of business is likely to maximize that employment. The answer is one that **performs most of its business functions within the NWT** (e.g. management, administration, accounting, and other business functions in addition to the direct employment required to perform the function or project contracted for) and is dependent on the NWT labour force for future work (and so is concerned with the skills level of the NWT workforce).

Retention of business earnings - Although any business operating in the NWT is supposed to report the income earned in the NWT and pay the associated tax to the NWT, it is more difficult to enforce this for non-resident businesses. But the key attribute we want is that **the business reports its income and pays tax in the NWT.** Non-resident businesses may reinvest earnings in the NWT but resident businesses are more likely to invest in business infrastructure located in the NWT and look for their next job within the NWT. After-tax business profits and resulting retained earnings or shareholder dividends are largely lost to the NWT economy for non-resident businesses. For resident businesses, whose owners are also resident in the NWT, there is a better chance these profits and dividend earnings will find their way back into the NWT economy, unless the owner moves or the earnings and dividends are spent on non-NWT produced goods and services.

Increased business skills – The NWT wants a resident private sector that is aggressive, creative, capable, and competitive. This requires possession of strong business and management skills, which are largely gained through experience. To acquire this experience NWT resident business must not only get a reasonable share of contracts, **but the business must actually manage the jobs themselves** (e.g. not be passive partners).

After going through these three steps, the conclusion is that we do care about the definition of a northern business. And the features of a northern business that we care most about are:

- That it performs the majority of its business functions in the NWT (e.g. maximizes NWT employment, optimizes multiplier effect, and maximizes reinvestment).
- That it earns most of its income in the NWT and pays appropriate tax to the GNWT (e.g. maximizes retention of business earnings in NWT).
- That it is actively engaged in management of the contracts it acquires (e.g. maximizes development of business skills and competitiveness).

You will note that we have not included that the business is predominately owned by NWT residents. The reason for this is threefold. First, the link between increases in the personal wealth of owners and benefit to the NWT economy is very hard to determine or establish. Personal wealth is very mobile and how it is consumed or expended is virtually impossible to track. Second, there are better ways to stimulate reinvestment of personal owner wealth in the NWT economy than a BIP type program (e.g. investment tax credits). Third, it is philosophically difficult to justify that personal wealth should be directly contributed to through the expenditure of public funds.

With the above three attributes established, the next question is how we can most efficiently determine which businesses possess them and should be verified as northern businesses for registry purposes.

1) That the business performs most of its business functions in the NWT

   Any company, partnership, or sole proprietorship doing business in the NWT must register with NWT Legal Registries and identify the directors of the firm. As a starting point, proof of registry with Legal Registries should be required.

   Next, we want to ensure that the business's head office functions and other support functions such as asset maintenance are performed largely in the NWT. It should be noted that this is what gives rise to the higher cost of doing business for a northern firm, so it is also the area we need to address when we try to help level the playing field. The actual degree to which business operations are conducted in the NWT is not easy to ascertain. Even tax records will only tells us what input costs were incurred to earn income, they will not tell us where those inputs costs were sourced from. For these reasons, we may need to rely on the composite of the following measures to gain a level of assurance as to scope of NWT based company functions.

2) that the business earns most of its income in the NWT and pays appropriate tax to the GNWT.

   Once a northern business grows and matures to the point where the majority of its business income is from out-of-NWT sources, it has reached the stage where it can openly compete. The company no longer needs preference or incentive with respect to NWT based economic opportunities. The simplest means of determining income source and tax paid is from the NWT tax records retained by the GNWT Finance Department. However, tax collection agreements with the federal government probably preclude using tax information for this purpose. To determine if a firm met this requirement for designation as a northern business, while respecting the confidentiality of the tax records, the Registry Office could simply require the business to submit an affidavit each year answering two questions;

A) did your business earn and report income in the NWT last year?
B) was the majority of its business income earned in the NWT?

These affidavits may be confidentially spot checked against the actual tax records. The application form would also require the applicant to consent to this verification.

3) that the business is actively engaged in management of the contracts it acquires.

The only means to assess this is to require that the company directors (not shareholders) and senior officer/s (CEO, President, General Manager, etc.) be NWT residents. This ensures that the management of the company is located in the NWT and is engaged in managing the firm business. The simplest way to establish this is to verify that the directors and senior officers are resident in the NWT (e.g. filed their personal tax in the NWT). Again, once a year or once every two years an affidavit could be requested.

Note: there may be a need to adopt a modified approach in situations where the NWT resident is exempt from paying tax on income.

Conclusion

We have spent considerable time in this paper discussing the questions concerning the BIP that we identified at the outset. We have drawn some conclusions and we have examined and presented some options for change. The following summarizes the key conclusions this paper has reached.

1. Is the BIP consistent with current GNWT vision, priorities, goals and strategies?

The BIP purpose of providing an incentive to northern business in order that northern business is able to provide goods and services to government, the private sector and the general public at a reasonable price is well beyond the capabilities of a bid adjustment mechanism applying to government funded procurement and is not consistent with the GNWT's economic vision, priorities, goals and strategies.

The BIP purpose of providing an incentive to northern business in order that northern business is able to provide financial support, through the reinvestment of corporate earnings, to the northern economy is consistent with Towards a Better Tomorrow.

There is a need to revise the purpose of BIP to support current economic vision, priorities, goals and strategies.

2. As it is structured, does the BIP deliver expected results in an efficient and effective manner?

The current structure of the BIP does not contribute to its intended results in an efficient and effective manner. It is not possible to demonstrate a direct link between application of the BIP and the level of reinvestment in the NWT economy by those companies benefiting from BIP application.

Given that the current BIP is not entirely consistent with "Towards a Better Tomorrow" and that it is not achieving its intended results in an effective and efficient manner, there is a need to restructure BIP.

3. Are there alternative approaches that would be more cost effective?

A business incentive program has the highest potential to be an effective economic development tool in the areas of human resource development, business infrastructure investment and market development. The taxation system is one of the most effective means of providing business incentives and encouraging desired business behavior. However, given current financial arrangements with the federal government respecting federal funding support, royalties, and other factors affecting mega-resource development, the GNWT is fairly limited in which sectors of the economy it can directly support.

3.1. What are the specific weaknesses of the current BIP design?

3.1.1. Weaknesses with respect to the BIP tendering provisions?

In essence, the restrictive tendering for contracts under $30,000 removes the ability to ascertain "benchmark" prices for GNWT purchases of goods and services in this range. This makes determining the premium that may be inherent in this approach very difficult. It also can lead to the development of a non-competitive economic sector or sectors in the NWT. This situation is added to by informal practices that have developed in GNWT procurement whereby most advertising, regardless of value, is only done in NWT media. These practices, combined with the market's knowledge of the bid adjustment provisions of the BIP and the highly publicized use of negotiated contracts, have created an almost defacto absolute northern tendering restriction for GNWT contracts. Even ignoring the implications of this with respect to both the letter of and spirit and intent of the Agreement on Internal Trade (AIT), we must assess if this is consistent with policy direction and principles. To do this assessment we should address each feature of our current tendering and bid adjustment provisions.

Irrespective of bid adjustments or other policy provisions, a regime of restrictive tendering is neither consistent with the government's economic direction to create a growing, competitive and diversified economy, or consistent with principles of transparency and accountability for the costs and benefits associated with the policy. There may be a cost argument for not broadly advertising contracts below AIT thresholds ($25,000 for goods, $100,000 for services and $100,000 for construction).

3.1.2. Weaknesses with respect to the bid adjustment?

The bid adjustment as currently structured is not an effective tool for "levelling the playing field". First, the bid adjustment only applies to GNWT procurement which we have already identified as comprising only 7% of GDP and as a component of our economy is shrinking. Second, we may be compensating for southern sourced goods, services and labour, and not compensating for true higher northern based operating costs. Third, we may be encouraging complex machinations to secure designation as an approved northern business and then northern content sourcing games to acquire bid adjustments. This results in an administrative and enforcement nightmare. Administratively, the status of a proposer must be determined vis a vis complex eligibility criteria, bids must be analysed for their northern content, and then contract performance must be monitored to verify the actual northern content proposed is achieved. And where the bid northern content is not achieved, then recourse must be sought. There is little actual recourse available.

The objective of levelling the playing field while northern business builds capacity to compete independently is valid when compared to our economic direction, but the tool we have selected apoears to be the wrong tool. The bid adjustment is complex, prone to manipulation and only applies to 7% of economic activity. The taxation system may be a more effective means of levelling the playing field and could apply to all NWT economic activity. In addition, if government wishes to use its spending to encourage labour force development, it may be preferable to use a more direct incentive such as a northern labour rebate.

3.1.3. Weaknesses with respect to the northern business registry?

If the GNWT eliminates restrictive tendering and the bid adjustment process, and replaces these with more effective business supports, then the maintenance of a BIP registry becomes unnecessary for government procurement purposes. However, there is still a need to define a NWT business for other purposes, such as application of negotiated northern benefits agreements with industrial developers. But there may be less complex and more accurate means of determining who is a northern business.

3.2 What business incentives may be more effective?

3.2.1 More effective in achieving the GNWT's goal of higher levels of northern employment?

Given the government's objectives, clearly it would prefer contractors to choose to hire and train NWT residents. How does government influence this choice? Only by shifting the added cost of the time, training and higher northern wage rate to itself. In doing this, however, the government must calculate the subsidy carefully by ensuring it appropriately values the labour transportation and accommodation costs of importing labour and deducting that from the subsidy for northern employment that it is prepared to make (in reality this will be based more on trial and error than quantitative analysis simply because of the large number of variables and assumptions at play).

3.2.2. More effective in achieving the GNWT's goal of helping to level the playing field?

No mechanism is available or affordable that would totally compensate for the higher cost of operating a resident business in the NWT. This is simply beyond the financial capacity of the GNWT and would not be sustainable in the longer term. However, support through the tax system is possible and has the advantage of assisting NWT businesses in all their revenue generating activities, not just business they may do with the GNWT. This helps them compete for that other 93% of NWT economic activity.

3.2.3. More effective in achieving the GNWT's goal with respect to a northern business registry?

After going through the analysis, we can conclude that the GNWT's should care about the definition of a northern business. And the features of a northern business that it should care most about are:

- That the business performs the majority of its business functions in the NWT (e.g. maximizes NWT employment, optimizes multiplier effect, and maximizes reinvestment).
- That the business earns most of its income in the NWT and pays appropriate tax to the GNWT (e.g. maximizes retention of business earnings in NWT).
- That the business is actively engaged in management of the contracts it acquires (e.g. maximizes development of business skills and competitiveness).

What Input is the GNWT seeking on this discussion paper?

First, the GNWT would invite comment on the analysis and conclusions presented in the paper. Is the analysis complete? Is it reasonable? Are there better alternatives available?

Second, the GNWT would invite comments and suggestions about how a program should be designed if the conclusions presented were supported by the reader. For example:

- How should a northern labour rebate be structured? What level of rebate would be required to make it effective? What categories of northern labour should be targeted (e.g. youth, manufacturing, small communities, etc.). What thresholds should be adopted before the rebate kicks in (e.g. after 50% northern labour on a project is achieved, after 60%?)? Who should be eligible (e.g. only northern registered businesses, or everybody operating in the NWT)? How should northern labour be defined (e.g. what identification required, what level of verification/monitoring)?
- How should a tax based incentive be designed? Should it be a tax credit or a tax rate change? What level of tax incentive would be required to be effective? Who should be eligible for the tax incentive?
- How should the GNWT determine whether a business meets its definition of an NWT business? What proof should be required? How should the GNWT monitor this?

These are just samples of the type of input the GNWT hopes to receive. Comments are requested by March 2, 2001 and should be sent to:

Mr. Robert McLeod
Deputy Minister
Department of Resources, Wildlife and Economic Development
P.O. Box 1320
Yellowknife, NT
X1A 2L9

Fax : (867) 873-0181

Policy

52.04
Business Incentive

1. Statement of Policy

The Government of the Northwest Territories may provide an incentive to northern business in order that northern business is able to:

(1) Provide goods and services to government, the private sector and the general public at a reasonable price, and

(2) Provide financial support, through the reinvestment of corporate earnings, to the northern economy.

2. Principles

The Government of the Northwest Territories will adhere to the following principles when implementing this Policy:

(1) To provide existing northern business with a level of business incentive that compensates for the higher cost of operating a business in the Northwest Territories. This business incentive will allow for northern business to compete successfully with southern business.

(2) To provide new northern business with a level of business incentive that would enable the firm to develop necessary experience and business skills. These business skills will allow northern business to compete successfully with other northern business and southern business.

(3) To provide northern business with the opportunities required to create employment for northern and local administrative and management staff.

(4) To provide northern business with the opportunities necessary to train northern administrators and managers.

(5) To develop policies which are easily understood by the business community and which are easy to administer.

(6) To treat all northern business fairly and at the same time to take account of local cost differences without causing intra-territorial conflict.

(7) To require the Business Incentive Policies to apply to all Government of the Northwest Territories departments and corporations, as well as communities and any other organization when 51 percent or more of the community's total funding or when 51 percent or more of the funding received for a specific project is obtained from the Government of the Northwest Territories.

3. Scope

Unless otherwise specified herein, this Policy applies to any contract whenever:

(1) fifty-one percent or more of the total contract funds, or

(2) fifty-one percent or more of the total annual operating funds of one of the parties,

is received directly or indirectly from the Government of the Northwest Territories.

4. Definitions

The following terms apply to this Policy:

General Contractor - one who contracts to undertake an entire project, rather than a portion of the project.

Local Business - a northern business which has been resident in the subject community for the six months prior to application and in addition complies with the following criteria:

(a) maintains an approved place of business by leasing or owning office, commercial or industrial space or where applicable, residential space, in the community on an annual basis for the primary purpose of operating the subject business, and

(b) maintains a local resident manager, and

(c) undertakes the majority of its management and administrative functions (related to its operations in the subject community) in the subject community, and

(d) has applied for and received designation as a local business at least two weeks prior to the tender opening.

Local Content - the dollar value of the goods and services required by the contract supplied by any local business. Local content may include:

(a) goods and services supplied by a local business or local supplier acting as the general contractor. These are referred to as "own forces";

(b) goods and services supplied by any other local business or local supplier so long as these goods and services are required for the completion of the contract and are paid for by the contract.

To receive a tender adjustment, the name of the local business or local supplier and the value of the local content must be listed on the appropriate tender documents. Prior to tender award, the Government of the Northwest Territories may review the proposed local content and request substantiation of the values submitted.

Local Resident - a northern resident who has been ordinarily resident in the subject community for the last six months.

Local Resident Manager - a local resident who is capable of undertaking all aspects of the management of the local business and has absolute decision making over day to day matters affecting the local business. The Senior Management Preference Committee may waive the requirement for the local resident manager to be a local resident in the case of a newly appointed local resident manager, if the business can demonstrate that within six months the local resident manager will have met the residency requirements and will in fact become a local resident.

Local Supplier - a northern supplier which is and has been for the six months prior to application, a supplier of goods in the subject community to which the public has access and from which the public can purchase directly from a representative inventory of items offered for sale. The Senior Management Preference Committee may grant local supplier status to a business that does not "physically" carry specific goods due to factors such as high cost/low demand, made to order goods, or articles of a nature that the Government of the Northwest Territories is the sole requisitioner. However, these goods would not be permitted to make up the majority of the goods offered by the business for sale.

Northern Business

(a) A business which complies with the legal requirements to carry on business in the Northwest Territories, and meets the following criteria:

  (i) is a limited company with at least 51 percent of the company's voting shares beneficially owned by northern residents, or

  (ii) is a co-operative with at least 51 percent of the co-operatives' voting shares beneficially owned by northern residents, or

  (iii) is a sole proprietorship, the proprietor of which is a northern resident, or

  (iv) is a partnership, the majority interest in which is owned by northern residents and in which the majority benefits, under the partnership agreement, accrue to northern residents and complies with the following criteria for overhead:

(v) maintains an approved place of business in the Northwest Territories by leasing or owning office, commercial or industrial space or in the case of service oriented businesses, residential space, in the Northwest Territories on an annual basis for the primary purpose of operating the subject business, and

(vi) maintains a resident manager, and

(vii) undertakes the majority of its management and administrative functions (related to its operations in the Northwest Territories) in the Northwest Territories, and

(viii) has applied for and received designation as a northern business at least two weeks prior to the tender opening.

(b) Notwithstanding Section (a) of this definition, a non-resident business that has carried out business in the Northwest Territories for ten consecutive years prior to the date of application and complies with the following criteria for overhead:

(i) maintains an approved place of business in the Northwest Territories by leasing or owning office, commercial, or industrial space or where applicable, residential space, in the Northwest Territories on an annual basis for the primary purpose of operating the subject business, and

(ii) maintains a resident manager, and

(iii) undertakes the majority of its management and administrative functions (related to its operations in the Northwest Territories) in the Northwest Territories, and

(iv) has applied for and received designation as a northern business at least two weeks prior to the tender opening.

Approval of a contractor under Section (b) of this definition will not be automatic. All companies which do not meet the ownership criteria as stated in Section (a) of this definition may apply for approval under Section (b) of this definition. Approval under Section (b) shall be reviewed and a recommendation made by the Advisory Committee and shall only be approved by the Senior Management Preference Committee. All companies which were previously approved as a northern business under the Business Incentive Policy Section 6.1(2) dated February 28, 1985, shall be re-examined.

Companies requesting approval under Section (b) of this definition will be expected to meet the "spirit and intent" of the Business Incentive Policy and shall be expected to demonstrate an ongoing contribution to the economy of the Northwest Territories through the operation of their business.

Northern Content - the dollar value of the goods and services required by the contract supplied by any northern business or northern supplier. Northern content may include:

(a) goods and services supplied by a northern business or northern supplier acting as the general contractor. These are referred to as "own forces";

(b) goods and services supplied by any other northern business or northern supplier so long as these goods and services are required for the completion of the contract and are paid for by the contract.

To receive a tender adjustment, the name of the northern business or northern supplier and the value of the northern content must be listed on the appropriate tender documents. Prior to tender award, the Government of the Northwest Territories may review the proposed northern content and request substantiation of the values submitted.

Northern Resident - a person who:

(a) has spent the last twelve months ordinarily resident in the Northwest Territories, and

(b) has a valid Northwest Territories Health Card.

Northern Supplier - a northern business that is a supplier of goods to which the general public has access and from which the general public can purchase directly from a "representative" inventory of items offered for sale. The Senior Management Preference Committee may grant northern supplier status to a business that does not "physically" carry specific goods due to factors such as high cost/low demand, made to order goods, or articles of a nature that the Government of the Northwest Territories is the sole requisitioner. However, these goods would not be permitted to make up the majority of the goods offered by the business for sale.

Owner - any organization which has authority to enter into a contract and shall include any Government of the Northwest Territories department, agency and corporation, as well as any community and any other organization when 51 percent or more of the organization's total funding or when 51 percent or more of the funding received for a specific project is obtained directly or indirectly from the Government of the Northwest Territories.

Qualification Committees - a committee in the North Slave, South Slave, Sahtu, Inuvik and Deh Cho Regions chaired by the Manager of Trade and Investments of the Department of Resources, Wildlife and Economic Development, and including such departmental representatives as the Chairs may find necessary, but shall exclude additional representation from the Departments of Resources, Wildlife and Economic Development, Public Works and Services, Transportation and the Northwest Territories Housing Corporation.

Resident Manager - a northern resident who is capable of undertaking all aspects of the management of the northern business and has absolute decision making authority over day to day matters affecting the northern business. The Senior Management Preference Committee may waive the requirement for the resident manager to be a northern resident in the case of a newly appointed resident manager, if the northern business can demonstrate that within one year the resident manager will have met the residency requirements and will in fact become a northern resident.

Subcontractor - a subcontractor shall include any party that does not have a direct contract with the owner but has entered into a contract with the general contractor or any subcontractor to supply goods or services that will be incorporated into the entire project covered by the contract.

Subject Community - the community wherein the work is being undertaken. In those cases where the work is undertaken outside the legal boundaries of a community the Government of the Northwest Territories may:

(a) define "community" to include that community in any case, or

(b) where two or more communities are both very close to the work site the Government of the Northwest Territories may define "community" to include both or all adjacent communities.

In all cases the definition of "community" shall be included in the tender documents.

Tender Adjustment - the amount by which the face value of a tender is reduced in accordance with Section 6(2) of this Policy. The tender adjustment is used for bid evaluation purposes only. The tender price minus the tender adjustment will be referred to as the adjusted price.

5. Authority and Accountability

(1) General

This Policy is issued under the authority of the Executive Council. The authority to make exceptions and approve revisions to this Policy rests with the Executive Council. Authority and accountability is further defined as follows:

(a) Minister

The Minister of Resources Wildlife and Economic Development (the Minister) is accountable to the Executive Council for the implementation of this Policy.

(b) Deputy Minister

The Deputy Minister of Resources Wildlife and Economic Development (the Deputy Minister) is accountable to the Minister and responsible to the Minister for the administration of this Policy.

(2) Specific

(a) Senior Management Preference Committee

A Deputy Ministers' Committee consisting of the major contracting departments (Resources, Wildlife and Economic Development , Public Works and Services, Transportation, and the Northwest Territories Housing Corporation) established to provide for overall policy coordination and monitoring of the government's preferential policies. The Departments of Justice and Finance shall provide advisory support from time to time as may be required.

The Senior Management Preference Committee shall ensure that the true "spirit and intent" of the Policy is considered and exercised at all times.

The Senior Management Preference Committee will:

(i) review appeals from contractors who are not granted northern status and make appropriate rulings for or against the application;

(ii) analyze and develop new Business Incentive Policies and amendments to existing Business Incentive Policies;

(iii) review and rule upon tender irregularities that relate to the application of the Business Incentive Policy;

(iv) from time to time issue "Interpretative Bulletins" which shall interpret the "spirit and intent" embodied in this Policy or other issues which may arise from time to time;

(v) approve procedural manuals pursuant to the Business Incentive Policy to facilitate its implementation, and issue interpretative bulletins, as required; and

(vi) report semi-annually to Cabinet any documents issued under Section 5(2)(a)(v) of this Policy and any decisions made according to "spirit and intent" which deviate from the strict rules of the Business Incentive Policy.

(b) Advisory Committee to the Senior Management Preference Committee

The Advisory Committee to the Senior Management Preference Committee (Advisory Committee) will act as a working committee to the Senior Management Preference Committee. In addition to the departments/corporations represented on the Senior Management Preference Committee, the Advisory Committee will include one representative from the Northwest Territories Construction Association and one representative from the Northwest Territories Chamber of Commerce. Any issues to be dealt with by the Senior Management Preference Committee may be reviewed first by the Advisory Committee. The Chairman of the Advisory Committee shall determine those discussions which involve internal Government of the Northwest Territories issues which cannot include the representatives of the Northwest Territories Construction Association or the Northwest Territories Chamber of Commerce.

The Advisory Committee will:

(i) consider Headquarters applications for designation as a northern/local business under the Business Incentive Policy and approve or reject these applications;

(ii) review all applications for designation as a northern/local business from joint ventures and approve or reject these applications; and

(iii) consider recommendations from the Monitoring Office for revoking northern status and approve or reject these recommendations.

(c) Regional Qualification Committees

Regional Qualification Committees will:

(i) consider regional applications for designation as a northern/local business under the Business Incentive Policy and approve or reject these applications. The

Regional Qualifications Committee will report to the Monitoring Office all businesses approved or rejected; and

(ii) respond to regional enquiries from business and the general public about the Business Incentive Policies.

(d) Monitoring Office

A Monitoring Office located in the Department of Resources, Wildlife and Economic Development will provide the requisite northern business registration, monitoring and reporting system for all departments and agencies.

The Monitoring Office will:

(i) review Headquarters applications for designation as northern/local business under the Business Incentive Policy and recommend approval or rejection to the Advisory Committee;

(ii) review approvals of northern/local business made by Regional Qualification Committees;

(iii) receive appeals from rejected contractors and prepare documentation and recommendations for the Senior Management Preference Committee;

(iv) on an ongoing basis confirm the list of all Business Incentive Policy approved companies to ensure they still meet criteria for northern status and recommend revoking northern status to the Advisory Committee in the case of businesses that no longer meet the requirements of the Business Incentive Policy; and

(v) collect data from all contracting authorities in respect to:

- prepare an annual list of all Government of the Northwest Territories contract awards noting northern or Southern status;

- collect data and report on names and addresses of workers on construction contracts;
- collect data and report on subcontractors and suppliers used on construction contracts; and
- review available annual reports from all northern businesses to identify trends in the capital asset base of northern business.

6. Provisions

(1) Eligibility

(a) Application for designation under the Business Incentive Policy is available to any corporation, partnership, sole proprietorship, joint venture or co-op.

(b) In order to receive the benefits of the Business Incentive Policy the business must have received prior approval. In order to receive prior approval the business must make application. The application must meet the criteria set out in this Business Incentive Policy and, furthermore, the application must meet the "spirit and intent" of the Policy as determined by the Senior Management Preference Committee. Application and approval must be completed two weeks prior to the approval status taking affect.

(c) The Senior Management Preference Committee may waive the strict requirements of the Business Incentive Policy so long as the "spirit and intent" of the policy is met and the business can prove that it provides long term benefit to the economy of the Northwest Territories.

(d) The Senior Management Preference Committee may remove preference from a northern business, subsequent to tender closing and prior to contract award, based on the identification of a failure to comply with the "spirit and intent" or the rules of the Business Incentive Policy.

(2) Tender Adjustment

For bid evaluation purposes the base bid submitted by a tenderer shall be reduced by an amount calculated as follows:

(a) Under $1,000

An owner shall purchase goods and services valued at less than $1,000 directly only from approved northern businesses. No discount is applied.

(b) Over $1,000 and Under $5,000

For contracts valued at over $1,000 and less than $5,000, a 20 percent discount shall be applied to northern content. For contracts valued at over $1,000 and less than $5,000 there shall be no additional tender adjustment for local content.

(c) Over $5,000

(i) Construction, Service and Maintenance Contracts

- Northern Content

  A 15 percent discount will be applied to northern content on all contracts.

- Local Content

  An additional 5 percent discount will be applied to any local content. The combined preference for local content shall, therefore, be 20 percent.

(ii) Goods Contracts

- Northern Content

  A 15 percent discount will be applied to northern content on all contracts.

The business incentive provided in this Section shall apply only to a northern business which is a northern supplier as defined in this Policy.

- Local Content

  An additional 5 per cent discount will be applied to any local content unless otherwise specified in the contract documents.

(3) Awarding of Contracts

Contracts will be awarded in accordance with the Contract Regulations of the Government of the Northwest Territories and in accordance with the Business Incentive Policy.

(4) Evaluation

A bid will be adjusted for evaluation purposes by the owner when all of the following criteria are met:

(a) a tender submission identifies the value of northern content and local content on the appropriate tender submission documents;

(b) an officer of the tenderer has certified that the northern and local content is correct (support materials must be available for supply to the owner on request).

(5) Invitational Tenders

All contracts estimated to be valued at less than $30,000 shall be invitationally tendered only to northern firms whenever there are two or more northern firms capable of providing the goods and services required.

(6) Calls for Proposals

Excepting consultants contracts, all contracts which are awarded based on a proposal call instead of a tender call shall require that all of the government's preference policies shall apply and further shall include, as a part of the proposal review and rating format, a provision for the consideration of proponent's northern status.

(7) Tender Procedures

(a) wherever practicable, construction projects will be split into phases or segments so that small northern contractors will have an opportunity to bid.

(b) wherever practicable, goods contracts will be tendered by logical grouping. Goods contracts shall not be tendered in a manner where disparate goods must all be supplied by one supplier and where the inability of a northern supplier to supply all the goods within a tender makes it impossible for that supplier to tender on a single component which the supplier is capable of supplying.

(c) wherever practicable, contracts for the supply of goods will be tendered in a manner which provides opportunities for northern manufacturers. This will include three-year to five-year contracts. The intent of this clause is that long term contracts are available which will permit northern manufacturers to recover their start-up costs through long term guaranteed contracts.

(8) Selection of Consultant Services

In accordance with the Government Contract Regulations, where a consultant contract is entered into pursuant to a request for proposal, the proposal shall be requested in accordance with the "Selection of Consultant Services" Directive. This Directive ensures that only northern consultants are requested to submit proposals so long as there are two or more northern consultants capable of undertaking the work.

(9) Purchase of Northern Manufactured Goods

In addition to Section 6(2) of this Policy, "Tender Adjustments", all contracts shall be evaluated in accordance with the "Purchase of Northern Manufactured Goods" Directive. This Directive extends an additional preference to goods which are manufactured in the

Northwest Territories and are supplied under the terms of the specific contract.

(10) Contractors' Use of Commercial Room and Board

Whenever the nature of a contract requires that accommodation for workers is required then the "Contractors' Use of Commercial Room and Board" Directive shall apply. This Directive requires contractors to use commercial room and board whenever available.

(11) Leasing of Improved Real Property

Whenever improved real property is leased by an owner the "Leasing of Improved Real Property" Directive shall apply. This Directive ensures that opportunities for northern lessors are maximized.

(12) Monitoring

(a) Preference

If a general contractor, subcontractor, or supplier:

(i) fails to provide the amount of northern and/or local involvement stipulated under the terms of the contract, or

(ii) has incorrectly certified the use of northern and/or local involvement stipulated under the terms of the contract, or

(iii) has changed without prior permission, the use of named northern and/or local businesses and/or workers stipulated under the terms of the contract, or

(iv) misrepresented themselves in any way, either at the time of application or a subsequent (e.g. non-declared change of ownership) alteration which contravenes mandatory policy registration criteria, then the owner may recommend to the Senior Management Preference Committee that the general contractor or subcontractor or supplier be disqualified as a northern business. The period of disqualification may be temporary or permanent according to the decision of the Senior Management Preference Committee.

(b) Damages

All contracts shall be written to include a condition that provides for the recovery of damages from the general contractor equal to the value of the northern content or local content promised by the general contractor or subcontractor under the terms of the specific contract but not received by the owner.

7. Financial Resources

Financial resources required under this Policy are conditional on approval of funds in the Main Estimates by the Legislative Assembly and there being a sufficient unencumbered balance in the appropriate activity for the fiscal year for which the funds would be required.

8. Prerogative of the Executive Council

Nothing in this Policy shall in any way be construed to limit the prerogative of the Executive Council to make decisions or take action respecting business incentive outside the provisions of this Policy.

Premier and Chairman of the
Executive Council

AN ECONOMIC FRAMEWORK FOR THE NORTHWEST TERRITORIES

A Coordinated and Integrated Approach to Economic Development

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INTRODUCTION

As we prepare for the 21st century, we face demanding economic, social and political challenges. Our population is increasing rapidly. The number of new jobs being created is not keeping pace with the number of people wanting or needing to work. Government can no longer afford to contribute the level of resources it has in the past. We all need to work together to find new, innovative ways to encourage economic growth and activity.

The Economic Framework is the first step toward a more coordinated and better integrated approach to improve economic conditions in the Northwest Territories.

The Economic Framework will:

1) provide stakeholders with a basis for making wise economic decisions by:
   - identifying the potential of all economic sectors
   - identifying the requirements to achieve our potential
   - providing a common basis of information and common language for discussions on economic opportunities
   - identifying roles and responsibilities of stakeholders

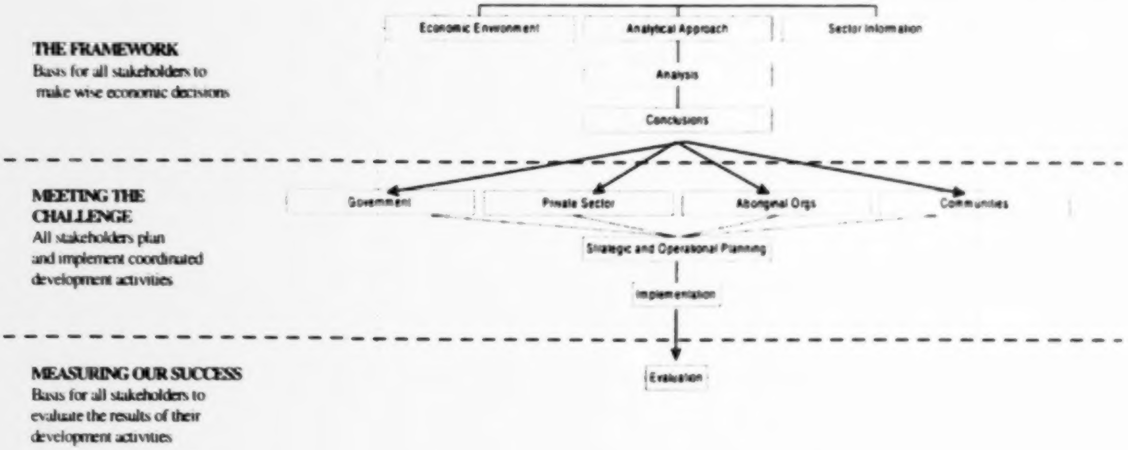
2) lead stakeholders in developing coordinated and integrated economic development activities

3) provide the basis for stakeholders to evaluate the results of their economic development activities

Figure A shows how the Framework leads to the development of coordinated and integrated strategies and action plans by a variety of economic stakeholders - government, private sector, aboriginal organizations and communities.

Figure A

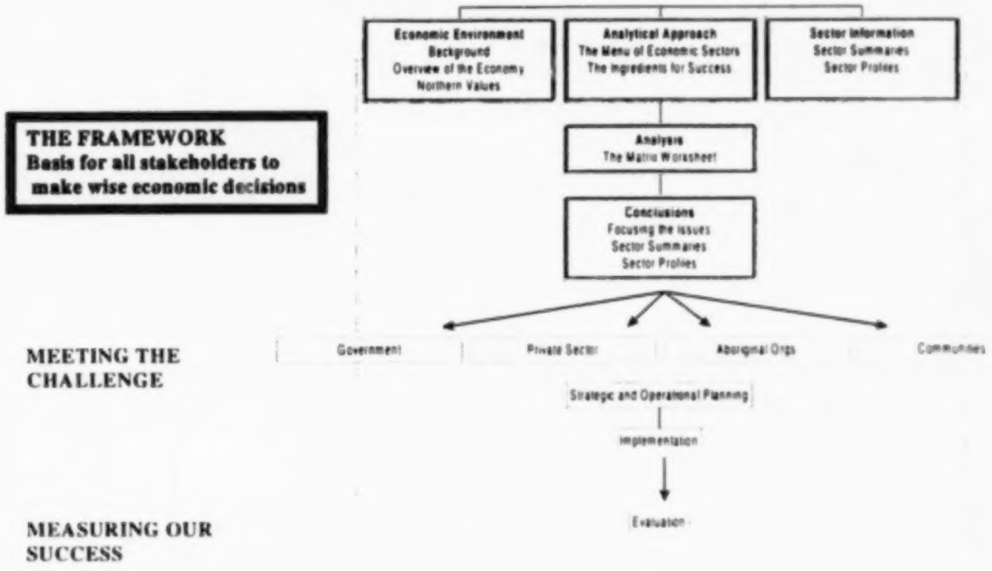
A Coordinated and Integrated Approach to Development


THE FRAMEWORK
Basis for all stakeholders to make wise economic decisions
Economic Environment
Analytical Approach
Sector Information
Analysis
Conclusions
MEETING THE CHALLENGE
All stakeholders plan and implement coordinated development activities
Government
Private Sector
Aboriginal Orgs
Communities
Strategic and Operational Planning
Implementation
MEASURING OUR SUCCESS
Basis for all stakeholders to evaluate the results of their development activities
Evaluation

This document presents the **Framework** and explains this new approach to development. It explains how stakeholders - government, private sector, aboriginal organizations and communities - can use the Framework to set priorities, identify opportunities and develop action plans to **Meet the Challenge** we face. It also discusses the need to monitor the results of our activities and the impact on economic circumstances by **Measuring Our Success**.

THE FRAMEWORK

A Coordinated and Integrated Approach to Development


Economic Environment
Background
Overview of the Economy
Northern Values
Analytical Approach
The Menu of Economic Sectors
The Ingredients for Success
Sector Information
Sector Summaries
Sector Profiles
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Aboriginal Orgs
Communities
Strategic and Operational Planning
Implementation
MEASURING OUR SUCCESS
Evaluation

This chart shows the components of the Framework. Each component is presented in detail below.

Background

In 1989, a report by the Standing Committee on the Northern Economy (SCONE) showed vast differences between more developed and lesser-developed communities in terms of unemployment, participation in the workforce and education levels. In response, the Government of the Northwest Territories presented an economic strategy to reduce these differences. The intent was to diversify the economy and create jobs in smaller communities.

Economic development financial assistance programs were redesigned to recognize the needs of businesses in smaller communities. The Business Credit Corporation was established to ensure that smaller communities had access to debt financing. The NWT Development Corporation was established to create employment in smaller communities. A federal/territorial Economic Development Agreement was implemented to address business infrastructure requirements, primarily in smaller communities. The Business Incentive Program promoted local hiring and contracting practices.

Between 1990 and 1994, government's investment into the economy through these sources exceeded $21 million per year. Jobs were created, but not enough to meet the need. From 1990 to 1994, employment increased by 5.8%, but the population increased by more than 12%. This has created a tremendous demand for social assistance as people are struggling to support themselves and their families.

Governments can no longer invest the large amounts of money it has in the past to maximize these opportunities and create jobs. Still, the Government plays a significant role in the economy. There is a need to create an environment to stimulate investment and create jobs for northerners. There is also a need to facilitate and encourage economic development activities by all stakeholders. But the Government cannot dictate what will be developed and how that development will occur. The Framework gives all stakeholders the information they need to set their own priorities and plans for resource utilization and development.

Overview of the Northern Economy

Unique circumstances exist in the NWT which often constrain economic development. At the same time these circumstances can present opportunities for growth.

In the NWT, modern industrial development and traditional activities exist side by side. Over the past few years, some linkages have evolved between these two economies. Wage employment has often provided the capital necessary to purchase harvesting equipment and supplies. However, this duality is still very evident, especially in the smaller, more remote communities.

The population is relatively small. Therefore, domestic markets for NWT goods and services are limited and not always easily accessible.

Much of the economy is based on extracting and harvesting natural resources. The price for commodities such as gold, fur and lumber is based solely on world markets and vulnerable to frequent price fluctuations.

Unsettled land claims and division of the NWT has created uncertainty and caution among investors and consumers.

The NWT has gone from one of the fastest growing economies in the 1980's into a period of slow growth in the 1990's. Business investment has dropped from almost $700 million in 1989 to less than $300 million in 1994.

Between 1986 and 1994, the economy created just over 6,000 jobs. This is 2,000 less than the increase in the labour force during the same period. The result has been rising unemployment and people leaving the NWT. The overall unemployment rate is 17% and the unemployment rate for aboriginal residents is 30%. The population continues to grow at one of the highest rates in the country.

More people than ever before are seeking wage employment opportunities. And the population in the larger centres is growing faster than in smaller communities.

The sources of employment have been changing as well. Figure B shows the changing share of total employment over the past 10 years.

Figure B

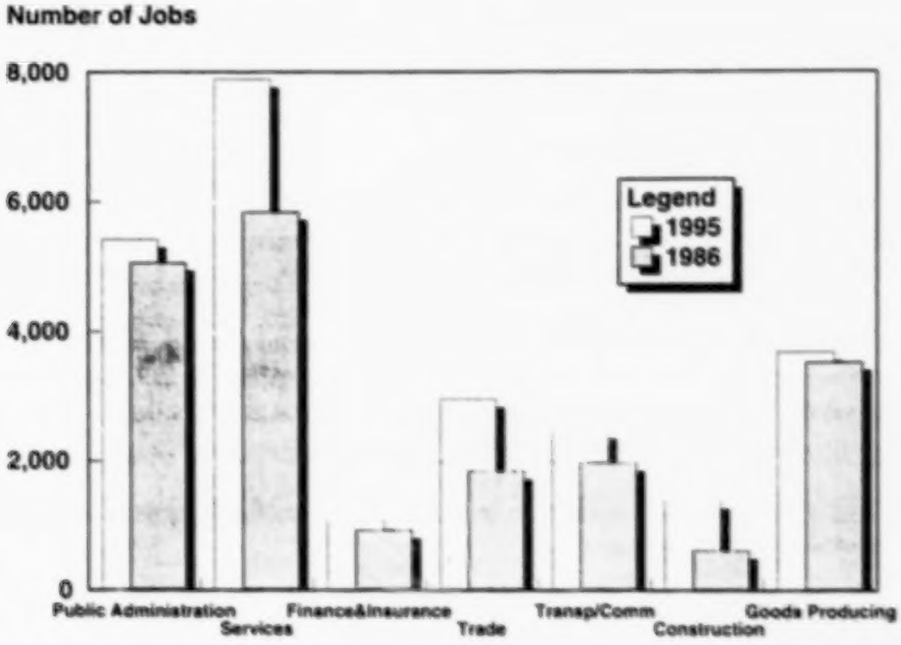
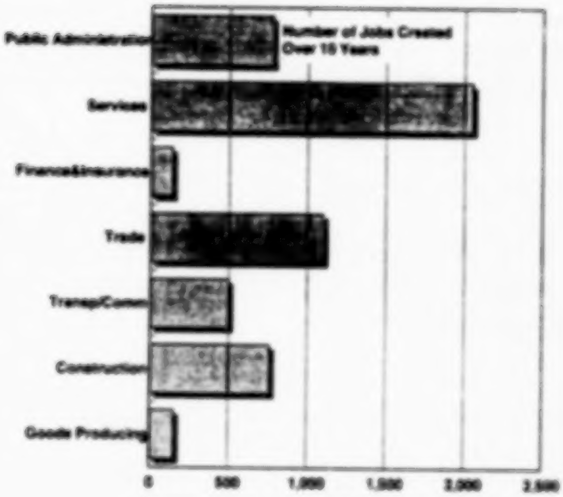


Figure C shows the number of jobs created in selected sectors over the same 10 year period.

Figure C



Source: NWT Bureau of Statistics, December Quarterly, Page 24

Clearly, the number of jobs in the Trade and Services Sectors have grown. The difference between employment in the Public Sector and employment in the Services Sector has increased from 4% to 11%. This is partly because of an increase in the demand for support services by mineral exploration activity and an increase in the NWT population.

Although some jobs have been created in the Public Sector and the Goods Producing Sector, the rate of growth has declined, partly because of the government's fiscal restraint measures and the decrease in mining development and production.

Coupled with the knowledge that a number of mines in the NWT will stop producing over the next few years, these trends raise a significant concern about whether the current level of growth in the Services Sector can be maintained if the current rate of growth in the Goods Producing Sector continues to decline.

Although the challenges may seem daunting they are not insurmountable. Opportunities do exist to reverse the negative trends and accelerate the positive trends within the economy.

Values

Northerners want to change the approach taken to economic development opportunities to better recognize the value of natural resources and northern people. Five values are listed below to help focus our decisions, design our action plans and achieve a vision of economic self-reliance.

1. Community Empowerment

Communities must be given the tools and responsibility for strengthening their own economies and participate in influencing resource-use decisions to ensure they reflect local opportunities, concerns and priorities.

2. Community Economic Development

Plans for utilizing resources have to be developed and supported by communities. Economic activity in communities not only benefits community residents but is critical to the health of the territorial economy.

3. Management of Our Resources

Natural resources must be managed and utilized responsibly so they can continue to provide development opportunities for future generations.

4. Partnerships

Improvement of the economy is not the responsibility of any one stakeholder. In order to achieve our objectives, all stakeholders must work in a spirit of cooperation and support.

5. Benefits to Northerners

Benefits generated by economic development activities must be realized by northerners. Northern resources must be utilized to create jobs and business opportunities for northerners and to generate new revenues.

An Analytical Approach

Figure D

Framework

	ECONOMIC SECTORS												
KEY INGREDIENTS	Minerals	Oil & Gas	Travel & Tourism	Wildlife & Fur	Fisheries	Forestry	Retail & Service	Construction	Manufacturing	Arts & Crafts	Agriculture	Trans. & Comm.	Public Sector
Natural Resources													
Human Resources													
Investment Dollars													
Infrastructure													
Markets													
Regulation & Taxation													

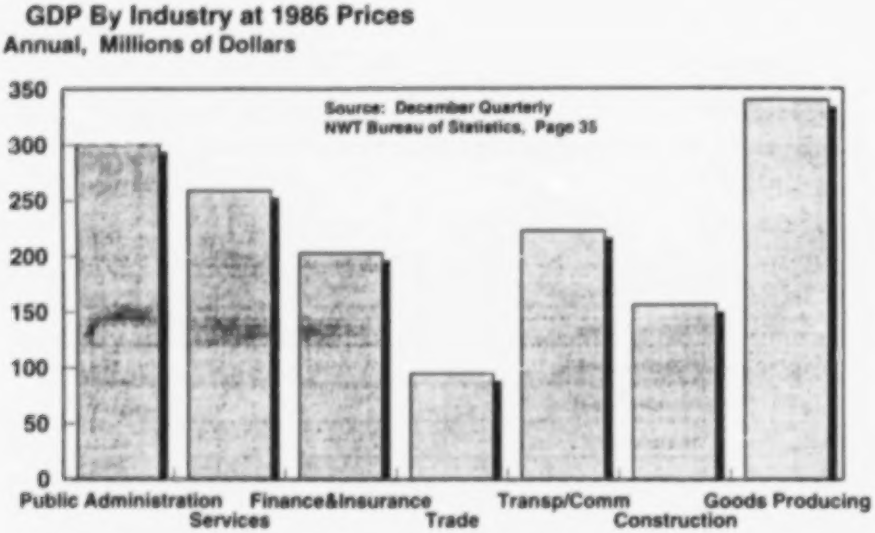
The Menu of Economic Sectors

The economy is made up of individual economic sectors. Each sector has its own distinct characteristics, strengths and weaknesses. Sectors are often dependent on each other. For example, increased tourism may lead to increased sales of arts and crafts. At the same time, the availability of arts and crafts may help to attract tourists. In the NWT, most small businesses depend on activity in the resource sectors to create markets for their goods and services.

The relative importance of each of these sectors to the territorial economy can be measured in terms of its contribution to our Gross Domestic Product (GDP). Simply described, GDP is the total value of all the goods and services produced within the Northwest Territories.

Figure E shows the contribution of each sector to GDP.

Figure E


GDP By Industry at 1986 Prices
Annual, Millions of Dollars

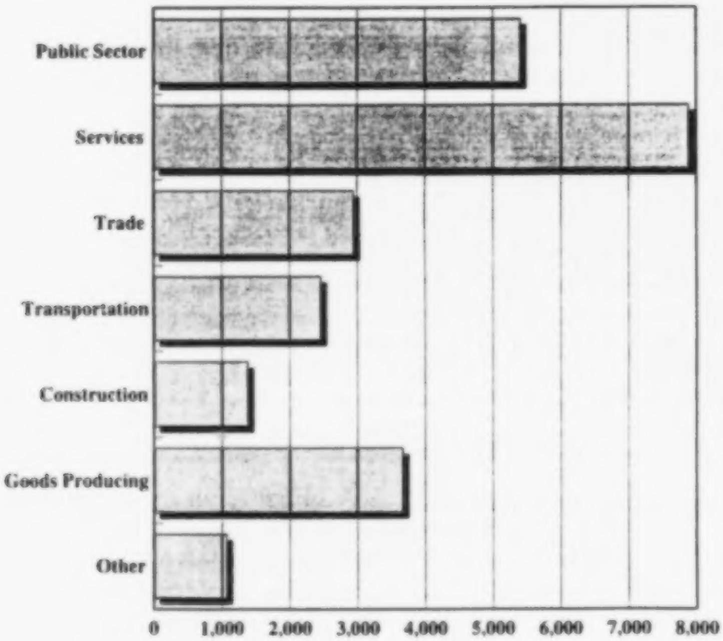
Source: December Quarterly
NWT Bureau of Statistics, Page 35

Services includes business and non-business services to communities, business and people - for example, education and health services.

Although GDP is one way to measure economic activity, it can be misleading in terms of distribution of income and benefits. For example, Mining,Oil/Gas is a high contributor to GDP but the benefits of these activities may only affect a relatively small number of people.

Figure F shows the number of jobs that each sector contributes to total employment.

Figure F



Although Figure F gives a better indication of which sectors provide jobs for northerners, these types of economic indicators do not truly represent the value of individual sectors to community economies. Further, they do not represent the potential of each sector to create productive opportunities for northerners. Although some sectors appear to contribute more than others to the economy, a healthy economy will include a number of diverse sectors that will provide a variety of opportunities for people to become more productive and self-reliant. Even a small sector may be important to a region, community or individual.

For example, traditional economic activities such as subsistence harvesting and trapping contribute to the economy, however, it has always been difficult to calculate exactly how much. It has been estimated that the replacement value of products produced by northerners hunting, trapping and fishing is between $50-$55 million. Even though this appears to be a small contribution to GDP compared to some other sectors, the traditional economy presents opportunities for a large portion of the population to contribute to the economic and social well being of their families and communities.

The Ingredients for Success

Any business enterprise requires several ingredients for success. A lumber producing business requires a sustainable source of timber, trained workers, capital funding to construct a sawmill, roads to transport raw materials and finished products, and customers to buy the lumber. In addition, regulations, taxes, local circumstances and the political environment may have a major impact on the viability of the business.

If any one of these ingredients is missing or causes the cost of production to be higher than the product's market value, the business will not be viable.

Just as a lumber enterprise requires these ingredients, so does each economic sector. The Framework examines each of these ingredients in each sector. This analysis determines the potential for growth and identifies what is needed to stimulate each sector and generate more benefits for northerners.

INGREDIENTS FOR SUCCESS

Natural Resources	The utilization of natural resources such as wildlife, minerals, fish and forestry is the foundation of the NWT economy. Opportunities in these sectors are directly related to the quantity and quality of both renewable and non-renewable resources. Natural resources also provide opportunities for residents to contribute to their own economic well being through the pursuit of traditional economic activities.
Human Resources	Adequate human resources are essential to the success of any enterprise. Owners, managers, professionals and workers must be equipped with the appropriate skills to be able to do their job effectively and contribute to the success of the enterprise.
Investment Dollars	Investment dollars are required to pursue economic opportunities. Financing of plant and equipment, product and resource development, inventory and marketing are all dependent on the availability of adequate funding.
Infrastructure	Access to infrastructure, such as roads, airports, power, water and communications systems is essential to support development activities.
Markets	Markets in which to sell goods and services are critical to the success of any economic sector.
Regulations & Taxation	Regulatory and taxation systems, while necessary, can have a significant impact on the viability of any business. In addition, local circumstances and the political environment may also have a major impact on success of the initiative.

A single missing ingredient can reduce viability of a project in a sector or specific initiative. Until 1982, Inuit harvesters sold an average of 30,000 to 40,000 sealskins, worth almost $1 million a year. There were vast natural resource, Inuit hunters were skilled and able, and most households owned the equipment needed to harvest seals. Seals were harvested for food and surplus skins were sold around the world through the international auction system. A sealskin harvester had an independent occupation that was healthy, respected, contributed to the local economy and helped to support the harvester's family.

In 1982, the European Union banned the import of sealskins taken from seal pups. The ban was intended to stop the harvest of harp seal pups off the Atlantic coast of Canada, however, it effectively eliminated the market for all seal products. Even though Inuit had never harvested seal pups, they were no longer able to sell their sealskins and total income from seal harvesting dropped to less than $20,000 a year. In this case, an import regulation implemented by another jurisdiction caused the collapse of the market for NWT sealskin products.

The six ingredients for success provide the basis for examining each sector. In some sectors, the mix of ingredients which exist, present outstanding opportunities for development. In other sectors, deficiencies may exist which need to be addressed to facilitate the viability of the sector.

Understanding these ingredients can also ensure better coordination of efforts. Major effort and investment to address one missing ingredient will not be effective if other missing ingredients are not also considered.

The responsibility for satisfying each ingredient changes with each sector. This sector-by-ingredient approach helps define the roles of stakeholders. In some cases such as infrastructure or regulations, government has a lead role. Basic education is another government responsibility, but businesses and individuals also have responsibility for teaching job specific skills. In some sectors, finding investment dollars may be entirely the responsibility of business, however, government may provide some direct assistance.

The Sector Summaries

A summary of each of the economic sectors is presented below. These summaries present a broad overview of circumstances within the sector. They also discuss what is needed to stimulate growth and development to achieve viability in each sector.

This information is presented in detail in the individual sector profiles that are included as Appendices to the Framework.

Minerals

The mineral industry consists of two distinct activities. Exploration involves prospecting, claimstaking and development of a mineral property or deposit. Successful exploration could lead to mining production at a specific location. Although the two activities are interdependent, they each provide different opportunities and require different needs to ensure continued growth and development.

The mineral industry has been and will continue to be a driving force behind the NWT economy. It provides direct jobs both in exploration and mineral production. Mineral exploration has been a source of growth in the small business and service sectors over the past 5 years, providing numerous direct and indirect business and employment opportunities. There is excellent potential for increased small business development in association with the mineral industry as long as exploration continues.

The mineral industry, through exploration and mineral production, has the potential to produce a substantial number of jobs for northerners in communities across the NWT. Exploration and prospecting activities provide opportunities for seasonal, "on the land" jobs successfully combining wage employment with traditional skills and activities. Exploration activity in the NWT has increased steadily since 1991 and for the past two years, the NWT has led Canada in exploration expenditures. Although not all of these dollars remain in the NWT, as more services become available locally, the percentage that does remain will continue to increase.

There are some indications that exploration activities may decline over the next few years.
While advanced exploration remains high as work continues on the diamond discoveries, basic, grassroots exploration is declining. Since the initial diamond discovery in 1991 focused world attention on the NWT, the spotlight has shifted to Newfoundland and Indonesia. Given the vast mineral potential of the NWT, the possibility of finding another major deposit
is excellent, if the current exploration momentum is maintained.

In addition, mineral exploration has become an increasingly competitive global industry. If there is hope to maintain current exploration levels and attract new exploration to the NWT, there is a need to reduce the risk associated with exploration. Mining companies themselves will assume the financial risk if they believe the potential for development is worthwhile. However, the industry requires positive indications that an investment in the NWT is welcome and will be protected in the future. Specifically, the industry needs better consistency in the application of regulations; more stability regarding the land access and tenure processes; resolution on issues with respect to devolution, division and land claims; clarity regarding the roles and responsibilities of the various levels of government; and, a more complete and comprehensive geological database.

Royalties from the BHP diamond mine alone are expected to average $27 million per year over its planned 25 year production life, for a total estimate of $675 million. Currently, all royalties are paid to the federal government. But, the GNWT is actively pursuing the transfer of control over mineral resources from the federal government. In addition to the tremendous financial benefit that will be generated through this transfer, northern control over northern resources will allow the GNWT to resolve many of the outstanding regulatory issues, thereby gaining greater control and input into exploration and mineral production initiatives.

Oil & Gas

From 1977 to 1994, a moratorium on issuing exploration rights for oil and natural gas was in place in the Mackenzie Valley and southern NWT. This moratorium was, in part, a response to the recommendation of the Berger Commission that no more oil and gas exploration be pursued until outstanding land claims had been settled. Exploration licenses issued before the moratorium were honoured and resulted in several significant discoveries in the late 1970's and 1980's. However, the lack of ongoing exploration for so many years has severely reduced the prospects for developing the discoveries. It has also limited the knowledge of petroleum geology in the NWT when compared to northern British Columbia and Alberta.

However, there is excellent potential for oil and natural gas exploration and development in the Northwest Territories, specifically in the western NWT stretching from the Deh Cho to the Mackenzie Delta/Beaufort Sea. Past exploration of the NWT has resulted in the discovery of over 1.75 billion barrels of oil and 15 trillion cubic feet of natural gas.

Even though NWT oil and gas is located farther from the marketplace (most of Canada and parts of the US) than other supplies, this market is the largest energy consuming market in the world and the demand for energy and petroleum-based products is forecasted to grow. Southern Alberta is becoming increasingly depleted of conventional oil and gas and exploration has moved northward in the last two decades. The resolution of key land claims has allowed exploration activities to proceed. Investment in oil and gas in the NWT should yield high returns for companies and create direct and indirect business and employment opportunities for northerners.

Similar to mineral exploration and development, the oil & gas companies are willing to assume the financial risk associated with exploration if they believe the potential for development is worthwhile. But, the industry also requires positive indications that investments are welcome and will be protected in the future.

Specifically, the industry needs better consistency in the application of regulations; more stability regarding the land access and tenure processes; resolution on issues with respect to devolution, division and land claims; clarity regarding the roles and responsibilities of the various levels of government; and, a more complete and comprehensive geological database. In addition, the GNWT is actively pursuing the transfer of control over oil & gas resources from the federal government. In addition to the tremendous financial benefit that will be generated through this transfer, northern control over northern resources will allow for the resolution of many outstanding regulatory issues, thereby gaining greater control and input into exploration and development initiatives.

Travel & Tourism

The travel and tourism sector in the Northwest Territories has seen tremendous growth over the past 2 decades, both in terms of sales and the number and quality of facilities and services. But, in recent years, growth has slowed significantly. In 1996, summer tourism actually declined in some regions. Like many other industries, the growth and investment which has occurred has been concentrated in larger communities.

Tourism indicators for 1996 are not encouraging, showing little or no growth in every region of the Northwest Territories. However, there are positive signs. Adventure tourism ,both soft and hard, (soft and hard being defined as the physical capability required to complete the adventure) is the fastest growing tourism market in the world. Many NWT tourism products cater to this market. Other activities that interest these visitors, such as aboriginal culture and history, could be developed and packaged in the Northwest Territories. Although sport fishing and hunting are not growing markets, outfitters could substantially increase sales and make a major impact on our tourism industry by attracting only a small percentage of the existing market away from other destinations to the Northwest Territories. Auto touring attracts more visitors to the Northwest Territories than the other two types of visitors. These visitors tend to spend less money, and of course, road travel is only possible in the west. However, the potential market (Canada and the United States) is enormous and accessible.

Recent predictions indicate a potential for over 73,000 visitors to the Northwest Territories by 1999 - an increase of 11,000 visitors over five years - if there is continuing development of desirable products, effective marketing of these products and selectively packaging existing tourism assets.

To achieve this, there needs to be an increased commitment to education and training . The licensing process needs to be revised to provide more certainty to the private sector because facilities, products and services will not expand and improve without a significant increase in the level of private sector investment. Communities must demonstrate a commitment to service and go out of their way to make visitors welcome. The prices charged for tourism experiences must be commensurate with the quality of the product and competitive with similar products sold in other parts of the world. And, stakeholders must demonstrate a continuing commitment to industry research - measuring the impacts of tourism expenditures, identifying new areas for product and market development and assessing the level of satisfaction with our products.

Wildlife

The wildlife and fur sector has been and will continue to be of vital importance to the people and economy of the NWT. Subsistence harvesting for food provides a significant alternative to store-bought meat and fish. Commercial activities such as trapping and harvesting wild meat for commercial sales provide opportunities to earn income that are compatible with traditional skills and lifestyles. Wildlife also presents significant tourism appeal and provides opportunities for recreational hunting as well as non-consumptive activities such as wildlife viewing and photography.

There are many benefits provided by wildlife but most of these benefits are not reflected well through GDP and have seldom been acknowledged in economic statistics. Harvesting renewable resources for domestic use is the largest economic activity undertaken by aboriginal residents in the NWT. More than 90% of aboriginal households consume country foods. Over 70% of aboriginal households hunt or fish. Nearly 25% of aboriginal households trap. The value of this activity is estimated to be $50-$55 million per year if these products were replaced by southern imports.

The wildlife and fur sector provides significant potential for growth because of the many diverse activities within the sector. Increasing the subsistence harvest activity would help reduce leakages from community economies that result from the purchase of imported meat products. Increasing the commercial harvest activity could create jobs and bring new money into the community from the sale of export meat and fur. Increasing the non-consumptive activities could also bring new money into the community through tourism interests. This sector provides a unique opportunity for northerners to use and learn traditional skills and knowledge and at the same time, participate in the wage economy.

However, the wildlife resource is very vulnerable to changes in environment, migration routes, birth rates and disease all of which creates a certain level of risk associated with commercial development potential. Although there are very few regulations on subsistence hunting and trapping for aboriginal residents, there is a high level of uncertainty regarding regulatory issues surrounding the commercial utilization of the resource. This uncertainty compounds the risk and often discourages the investment required for resource development, training, infrastructure and marketing.

To encourage increased activity in subsistence harvesting, there is a need to find ways to recognize its importance to the well being of northern families and a way to determine its economic value to the economy.

Commercial harvesting for export is in its infancy. To pursue the potential, significant investment will be required to address skills and training needs, provide infrastructure, develop and package products and penetrate markets. In addition, there are some critical outstanding regulatory issues that require attention by the GNWT in order to pursue commercial harvesting and export activities effectively.

The high risk associated with commercial utilization of the resource and the large up-front infrastructure requirement has required GNWT involvement and financial support. Historically, the GNWT has provided significant subsidies to support commercial harvesting initiatives. The fact that there are competing development opportunities in this sector, and that GNWT financial resources are dwindling, suggests that priorities for resource utilization should be considered to ensure that northerners receive maximum benefit from the way in which the resources are utilized, that government investment in the sector provides maximum benefit to the greatest number of people possible and that development activities are sustainable.

Fisheries

Compared with other areas of the world, commercial fishing in the NWT is relatively small scale and NWT products play a small role in the commercial marketplace. The inland and marine fishing industry includes: the Great Slave Lake whitefish; the char fisheries in Nunavut; the offshore groundfish; the winter Greenland halibut fishery in Cumberland Sound; and the shrimp fishery off Baffin Island. Most commercially harvested fish caught in the NWT is sold with little or no primary processing, although some secondary processing (ie. smoking, drying, jerky, cutting and packaging) takes place in some communities. In addition, over 70% of aboriginal households fish or hunt to supplement their diet. Sport fishing also offers a major tourism attraction.

Unfortunately, there are a very low number of young people participating in the fisheries industry and the prospects for commercial development appear limited. Although a product like Arctic Char is seen as unique in the southern marketplace, it has been hampered by a lack of regular supply and inconsistent product. Also, char has experienced significant competition from farmed char and salmon products. Other NWT species suffer similar problems such as a decline in price and demand, low stocks and catch volumes, strong competition from comparable fish products and small fish size.

Because of the high risk associated with commercial fishing and the large up-front infrastructure requirement, GNWT involvement and financial support has been required. Historically, the GNWT has provided significant subsidies to support commercial fishing. Competing development opportunities in this sector, dwindling GNWT financial resources and low stock levels, suggests that priorities for resource utilization should be considered to ensure that northerners receive maximum benefit from the way in which resources are utilized, that government investment in the sector provides maximum benefit to the greatest number of people possible and that development activities are sustainable.

Forestry

A large forest resource base exists in the NWT. It is reported that there are 61 million hectares of forested area in the NWT.

However, the forest industry is at a very early stage of development. Subsistence use of forest resources is a significant, but an unmeasured component of the traditional economy. Although forestry contributes only a very small portion to the GDP, it could contribute a lot more. Many households use fuelwood for all or part of their heating requirements. But there is an opportunity to increase subsistence usage to replace currently imported fuel supplies, thereby contributing to better health and well being of smaller communities in the southern NWT.

Commercially significant forests are concentrated in the southwest corner of the NWT; along the Slave River, Hay River and Cameron Hills, and along the upper Mackenzie River and Liard River Valley. Further north, limited areas of commercial capacity occur along major river drainage systems and in the Mackenzie Delta. This resource represents potential to create new jobs and economic opportunities in harvesting, processing and manufacturing timber into a variety of products and for forest silviculture, including site preparation, tree planting and thinning.

The value of an expanded NWT forest sector can be measured in a number of ways. Benefits include direct jobs, manufacturing opportunities, government revenue through licences and fees, spin-off jobs in the service sector, increased local infrastructure and services, revenue from the sale of forest resources, and reducing the requirement for imported heating fuel through subsistence use.

Management of the resource, including forest inventory preparation, fire management and research activities, will continue to be critical to the success of the industry. Community developed forest management plans, comprehensive forest resource inventories, effective silviculture and reforestation, along with forest protection and an effective but not burdensome regulatory system are essential components of modern forest management in the NWT.

In addition, a variety of training initiatives are needed. Harvesting activities are becoming very mechanized and both commercial and subsistence harvesting require highly skilled workers to ensure operations are safe. Access to capital to address the high up-front costs is required if both commercial and subsistence harvesting is to succeed.

Trade & Services

The trade and services sector is a rapidly growing, diverse sector of the economy. It has been growing at three times the national average and employs 47% of the northern labour force.

Recent growth has been stimulated by the increase in exploration and development work in the mineral sector. As well, northern businesses are becoming more competitive with southern suppliers of goods and services. Opportunities in this sector are closely tied to the level and location of disposable income of individuals and their belief in their own financial security. Therefore, continued growth in this sector is dependent upon consumer confidence and level of northern employment in other sectors. If people are concerned about their jobs and their future they will spend less money. If the future looks financially secure, they are inclined to spend more for things such as personal services, business services, recreation and food services, and personal health and social services.

Recent government cutbacks and impending division of the NWT has created an uncertainty among consumers. Although natural population increases will continue to provide a growing market for northern-supplied goods and services, it will alone will not be enough to support the recent growth in available consumer products and services.

Although income taxes are low and there is no territorial sales tax, other costs such as payroll taxes and GST burden businesses with extra costs and time spent on complying with regulations and reporting requirements, which in turn, affects their competitiveness with southern suppliers

Low levels of general education in the workforce present specific challenges to this sector. The types of skills required range from basic literacy to the requirement for post secondary education and professional designations. Of particular concern to employers are high wage expectations on the part of potential employees with minimal skills and poor work habits.

Recent improvements in a number of services in this sector have helped it expand further. More and more business services such as accounting, Internet, computer programming and banking are being provided locally, which encourages new businesses to offer other goods and services to establish themselves locally. Funding assistance to develop trade and service opportunities is available from a wide range of sources, both government and private sector. But, small communities continue to suffer from a lack of equity capital and entrepreneurship training.

A generally productive economy, a high employment rate among northerners and stability regarding the impact of division and government fiscal restraint measures are essential to generate confidence among consumers, all of which will foster continued growth in this sector. In addition, the land lease issue in smaller communities needs to be resolved in order to give entrepreneurs some confidence that their investment(s) will be protected. Appropriate business training for entrepreneurs and managers and customer service and basic skill training for workers is required. Assistance in the form of equity capital for start-up or expansion and better coordination of industry information between government agencies and dissemination of the information to industry, will also support the sector and contribute to its growth.

Construction

The Construction sector is another major employer in the NWT. It contributes over 1,400 full-time existing jobs and accounts for 18% of all new jobs created. The primary source of this growth has been government spending, especially in housing and community infrastructure development, such as roads, airports, arenas and schools. The Mining industry is the principle private sector generator of construction activity, especially in building camps, mines, winter and all-season roads and airstrips. Also required is the infrastructure needed by other industries that support mineral exploration and development.

Growth in the construction industry will continue to rely on government spending and mining activity. The GNWT's projected expenditure for 1997/98 capital work is at an historic low, although the new infrastructure requirements as a result of the impending division of the NWT, will provide construction opportunities in Nunavut for a number of years.

The situation in the Western Arctic is not as encouraging and construction will rely more heavily on the results of mining exploration and development. As discussed in the Minerals summary, in order to attract new mining exploration and development to the NWT, thereby continuing to create new construction opportunities, a number of outstanding factors for the Mineral industry will need to be resolved.

This is a high capital, low profit margin industry requiring substantial investment for capital start-up and high operating costs, lucrative and secure markets, training in a variety of skills and affordable supporting infrastructure. Although the GNWT has attempted to provide support to the locally based construction firms through the BIP and other negotiated contracts, issues remain such as land leases, high WCB rates and burdensome paperwork and reporting processes as required by several levels of government.

Manufacturing

Manufacturing activity in the NWT has remained relatively flat since 1988, fluctuating between a low of $11 million in 1993, a high of $16.9 million in 1990, to the latest 1995 figure of $13.6[1] million. Potential, however, does exist in some communities to maintain growth in small-scale manufacturing. Even though the NWT has the Business Incentive Policy and is developing a Manufacturing support initiative, the NWT is not in a position to compete effectively with other jurisdictions in the areas of labour subsidies , low wage costs, low transportation and operating costs, large markets, tax holidays and other provincial/national incentive programs.

Opportunities for manufacturing will be created by increased investment in the resource sectors where specific needs can be filled through local manufacturing initiatives. For example, NWT businesses could capture a greater percentage of the current mineral activity by manufacturing products that are required for mineral exploration and development. Opportunities may also exist for small-scale manufacturing which targets the unique needs of northern markets. Products such as fuel tanks for northern businesses, institutions and commercial buildings are just several examples. In Nunavut, there will be a growing demand for housing and commercial development which will require products such as sheet metal components, holding tanks, cupboards and other building materials and supplies. Replacing goods that are currently imported into the NWT with items that are manufacturing domestically or locally offers opportunities to create jobs that help to reduce leakages out of the NWT economy and keep more money in communities.

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[1] All at 1986 prices

Skills required by the manufacturing industry are varied, ranging from technical trades to artisans. The industry offers excellent opportunities for on-the-job training and apprenticeship programs. However, training can be costly and often cannot occur until investors are sure that production volumes can be maintained to support the cost.

The primary means to expand the opportunities that manufacturing offers is to stimulate private sector investment. Government needs to design more programs to attract and retain new investment and encourage northern entrepreneurs to take advantage of opportunities to supply local and domestic markets. Flexible financing arrangements are needed to accommodate constraints like sea-lift and winter road schedules and the heavy "up front" financing requirement intrinsic to the manufacturing industry. Communities must be willing to offer more competitive rates on commercial land and more security regarding land leases. The provision of reliable, economical infrastructure, such as transportation facilities and low WCB and power rates, are essential to keep operating and marketing costs as low as possible which will in turn improve viability of the enterprise.

Arts & Crafts

The NWT arts and crafts industry is quite diverse, characterized by a wide range of traditional and modern activities. Within these categories, there is a variety of segmentation, opportunities and potential. Inspiration for NWT arts and crafts is found in the unique cultures, life-style and geography of the NWT. Various regional styles have emerged, inspired by local materials and artists and the diverse interpretations of the land and the traditional way of life.

Traditional arts and crafts production is primarily a cottage industry. Products are sold either to local cooperatives, other retailers, wholesalers dealing in northern art or on the private market. Due to the widespread and small-scale nature of the industry, it is difficult to reflect the benefits that are generated by arts and crafts production through the GDP. In addition, the value of emerging or modern arts activities such as performing arts, professionally organized arts festivals, literary arts, multimedia and film, is also unknown.

Promotion of NWT arts and crafts and getting the products to the marketplace creates specific challenges. Compared to the Western Arctic, Nunavut has been relatively successful at both these activities. Well established, private wholesalers act as a critical liaison for community artists and craftspeople who might otherwise have great difficulty getting their products to the marketplace. In the Western Arctic, a single well managed wholesaler has yet to be established to promote Dene arts and crafts. Recently, this gap has been offset somewhat by the NWT Development Corporation. Since 1991, the Corporation has invested in a number of production facilities, retail outlets and a wholesale company.

The most refined Inuit carvings, tapestries and prints have achieved world acclaim and benefit from extensive distribution networks. Dene and Metis arts and crafts have the potential to achieve comparable success. However, renewed efforts are required to effectively position Western Arctic products in the domestic and international marketplaces. In addition, there may be opportunity to increase sales in our own domestic and tourism markets. Recent surveys of tourists leaving NWT report an unmet demand for identifiable northern arts and crafts under $200.00

Much of the essential infrastructure is already in place and a there is a strong private sector presence in the industry. Therefore, in order to achieve the potential and support, the industry, the federal and territorial governments must improve the coordination of policies and programs and, with industry, define a common vision for future development. Increased effort must be placed on improving the consistency and quality of the products, matching product offerings with demand, standardizing clothing sizes, providing training, improving production techniques and increasing the effectiveness of marketing efforts.

Agriculture

The NWT has a considerable mass of variable classes of arable land suitable for agriculture production. However, access to land is restricted by the lack of long term tenure or possession of lands and the situation is not expected to improve until the federal government transfers a large tract of land to the GNWT. This will not occur until land claims are resolved or at least until claimant groups offer their support to the sector.

The ability to successfully grow a variety of crops and raise livestock has been demonstrated in various locations particularly in the southwestern portion of the NWT. The transition from casual production of crops primarily for personal use to operating a commercial operation demands a significant investment of capital, technical expertise and personal commitment.

A major constraint to commercial viability of NWT agriculture production is the size of the domestic market. Most products are readily available in the majority of communities, and at least in the larger centres, at a competitive price. Southern producers have the advantage of economies of scale, longer growing seasons and economical transportation links.

However, there are some opportunities. Negotiations currently underway between the federal, provincial and territorial governments may soon open up new markets. One particular area of interest is for products from the Hay River abattoir as meat inspection regulations become effective. Also, if we can succeed in getting a production quota for eggs for the NWT, this may present an opportunity to service the western Arctic domestic market with locally produced eggs.

The NWT agriculture industry is in its infancy. A huge amount of capital would be required to realize significant benefits and even then the industry would probably require on-going subsidization. There is the potential to service domestic markets with some products produced in the NWT. However, the opportunities associated with developing this industry compared to the benefits generated, seem somewhat limited.

Transportation & Communications

This is a huge and diverse sector of the economy which includes some of the biggest firms in the NWT. NWTel, Canadian Airlines, NWT Air, NWT Power Corporation and CBC are prime examples. This sector is closely tied to the development of all other sectors in the NWT. Components of this sector include: air transport, truck transport, taxicabs, radio and television communications, newspapers and magazines, internet, satellite communications, utilities, pipelines, private water services, marine, rail and road transport.

Today the industry employs about 2,500 people. While overall sector growth has exceeded NWT averages, this may not be the case for all industries in this sector. For example, telephone employment may be declining while computer networking employment is increasing.

Businesses in this sector are undergoing rapid evolution and face some real challenges. The development of new communications media, in particular satellite and the Internet will challenge sales and jobs in some businesses while creating opportunities in others. Deregulation will create new problems and opportunities within the sector. Increased competition in long distance telephone markets will likely reduce business costs, but could also reduce telephone industry employment and investment. Deregulation of the airlines may reduce airfares and increase tourism and business sales, but it may also mean more mining employees decide to commute between jobs in the NWT and southern residences. Some businesses within the industry will have to rely less on government funding. For example, CBC North has had to deal with significant government funding reductions in recent years. Reductions in employee benefits within the GNWT and the transfer of staff to Nunavut, may reduce travel markets in the Western Arctic.

For the most part, the companies involved in this sector are willing to assume the risk of investment if they feel that the investment will be profitable. However, the industry requires positive indications that their investment in the NWT is welcome and will be protected in the future. Specifically, the industry needs better consistency in the application of regulations (although many of these industries are under federal jurisdiction), resolution on issues with respect to devolution, division and land claims; and training opportunities to ensure more northerners are employed in the industry.

Public Sector

In many communities in the NWT, government activity is the foundation of the local economy. Government spending on programs and delivery of those programs provides jobs and income directly to public service employees and indirectly to construction contractors and goods and services suppliers. Transfer payments such as social assistance and other public services such as health care, education and housing, all contribute significantly to the government's impact on the economy.

The GNWT currently receives 71% of its revenue as a transfer payment directly from the federal government. The amount is based on a formula which averages provincial government expenditures. When the formula was first introduced, governments everywhere were expanding to meet growing demands for services and the GNWT benefitted from increasing transfer payments which kept pace with southern growth.

The 1990's saw a severe downturn in spending which resulted last year in a 5% ($60 million) reduction in the transfer payment to the GNWT. No increases are anticipated over the next few years. Meanwhile, our population continues to grow at the fastest rate in Canada and the GNWT's capacity to fund essential services has been and is severely eroded.

In addition, NWT mineral resources, which could provide significant revenue through royalties, are currently controlled by the federal government and royalties are paid directly to Ottawa. The state of existing finances and reliance on external funding mirrors the poor economic linkages and relative lack of development of our resources. Without receiving revenue from our mineral resources and without significant development activity in other sectors to generate income and business tax revenue, the GNWT will remain dependent on federal transfer funds and vulnerable to changes in the funding formula.

The Public Sector has been included in the Framework because of its significant contribution to the NWT economy. However, the intention is not to encourage growth in this particular sector. Rather, the challenge to the public sector, in light of continually shrinking resources, is to find ways that essential services can be maintained at a cost that is affordable and effective.

In preparation for the next century, the role of government will continue to change dramatically. It can no longer be relied upon to play as significant a role in the economy as it has in the past. Government must assume a new role of facilitating, assisting and encouraging private sector, communities, businesses and aboriginal organizations to create job opportunities for northerners. Opportunities for NWT businesses to expand and new ones established must be identified. Ways must be found to stop dollars leaving the NWT through more efficient use of NWT own resources. Government spending has to be more coordinated to provide economic benefit to communities and individuals. Communities must continue to be empowered with resources and expertise so that they can make informed decisions regarding resource development and spending priorities. As we begin implementing changes, government has a responsibility to monitor activities to ensure that northern priorities are acknowledged and that results lead to a productive and more self-sufficient economy.

Focusing the Issues

Throughout the sector analysis, a number of needs within each Ingredient for Success emerged that are common to many of the sectors. These needs focus on strengthening each Ingredient for Success so that it contributes fully to a healthier, more self-sufficient economy.

Making the Best Use of Our Resources

The rich natural resources that are found in the NWT provide a solid foundation upon which to build a healthy economy. Renewable resource use is critical to the self-sufficiency of communities. Non-renewable resource exploration and development is extremely important not only for job creation in those sectors but also for the creation of new opportunities in the secondary and services sectors across the Northwest Territories. Exploration and development activities also generate royalty and tax revenues that could provide new sources of funding for programs.

Future prosperity depends upon a continuing ability to discover and harvest natural resources in sustainable and responsible ways that provide maximum benefits to northerners.

Needs

1) Clearly articulated policies for the utilization of resources (subsistence, commercial, export, value added) to:
    - ensure that development initiatives provide maximum benefit to northerners and
    - facilitate the allocation of government funding to specific sectors and uses.

2) Comprehensive resource inventories and ongoing monitoring to:
    - encourage resource exploration and development and
    - facilitate decisions regarding resource utilization.
3) An effective means of assigning value to renewable resources to facilitate decisions regarding utilization.
4) Increased access to land for exploration and development.

Developing Human Resources

Currently, many northerners lack formal education and job experience which serious limits their access to jobs. Our workforce must be strengthened so that northerners have the skills and knowledge to pursue development opportunities and fill the jobs that are available, whether the jobs be through wage employment or other productive alternatives.

All stakeholders in the economy need to work together to develop our human resources. We need to integrate human resource develop with economic development initiatives at the community level. This type of approach will result in better links between the skills that are required and the skills that are available in the northern workforce.

Needs

1) Increased levels of basic education to increase employability.
2) Training for job specific, technical skills.
3) Entrepreneurial and business management training.
4) More programs that provide work experience.
5) Innovative training methods and easier access to training.
6) Occupational standards.

Finding Investment Dollars

Generally, large companies (resource exploration/development, retail, professional services, banking services) will assume the financial risk associated with development if they believe there is potential for a good return on their investment. These companies require positive indications that their investment is welcome in the Northwest Territories and will be protected in the future.

However, finding investment dollars for most development opportunities in the Northwest Territories is not as simple. Attention needs to be directed to the problems encountered by communities and individual entrepreneurs when they are trying to secure investment dollars.

Needs

1) Improved access to debt capital, particularly in smaller communities through increasing awareness of programs, simplifying procedures and better coordination.
2) A rigorous, disciplined approach to help proponents identify viable development opportunities that will attract adequate investment dollars.
3) Leveraging other sources of financing to enhance existing resources.
4) Flexible financing and repayment arrangements to accommodate the seasonality of many development opportunities.
5) Partnerships between communities and funding sources to ensure that funding decisions reflect community priorities.

Building Infrastructure

A major barrier to economic development initiatives in the Northwest Territories is the lack of public infrastructure. The ability to travel and move commodities is critical to the success of most economic development initiatives. While much of the existing infrastructure in the Northwest Territories was originally constructed in support of development initiatives, the opposite is also true; new infrastructure could help to increase economic activity. Particularly, improved transportation infrastructure would help to create development opportunities in the Mineral, Oil & Gas and Tourism sectors.

The Government must continue to provide infrastructure in the forms of highways, airports, marine facilities, communications systems and public utilities to encourage increased economic activity. However, the Government does not have enough funds to satisfy all projects. Therefore, a partnership approach with communities, small businesses and large exploration and development companies is critical to ensure that appropriate infrastructure is provided at a reasonable cost and that government expenditures for infrastructure reflect economic development needs.

Needs

1) Appropriate and affordable public infrastructure to encourage and support economic development opportunities.
2) Leveraging other sources of funding to enhance existing resources.
3) Alternative forms of offsetting costs (user pay).
4) Community infrastructure projects that support community development priorities.

Developing Markets

Finding and developing the appropriate market(s) is essential for the viability of a sector or a specific development opportunity. In the Northwest Territories, markets for our products are very closely tied to how we decide to utilize our resources. Certainly for resource based commodities such as minerals, oil & gas, lumber, and fur, there is little we can do to influence market demand or consumer price.

But this is not the case for other northern goods and services such as tourism, arts & crafts, meat & fish, manufactured product agriculture products, hospitality services and professional services. These products present significant marketing challenges because of the diversity of the products, the diversity of the markets and in the case of southern based markets, the distance that we are to the marketplace.

Marketing activities generally cost a lot and the results often cannot be determined until months or years later. Strong partnerships between funding sources and producers are essential to ease the high cost of marketing and help ensure marketing activities reflect market demand.

Needs

1) Consideration of local, regional and territorial markets as alternatives to export markets.
2) Targeting the production of goods and services to better fit market demand.
3) Accurate marketing intelligence in order to design effective marketing and promotional activities.
4) Effective distribution networks for goods produced in the Northwest Territories.
5) General awareness marketing by the Government. Product specific marketing

Designing Supportive Regulatory and Taxation Systems

The regulatory environment and taxation regime in the Northwest Territories have a direct impact on the level of economic activity. In many instances, the way regulatory responsibilities are currently carried out has resulted in increased costs, has put unnecessary burdens on business and has created barriers to development. The taxation system, although not particularly burdensome, could be used much more effectively to encourage development and job creation.

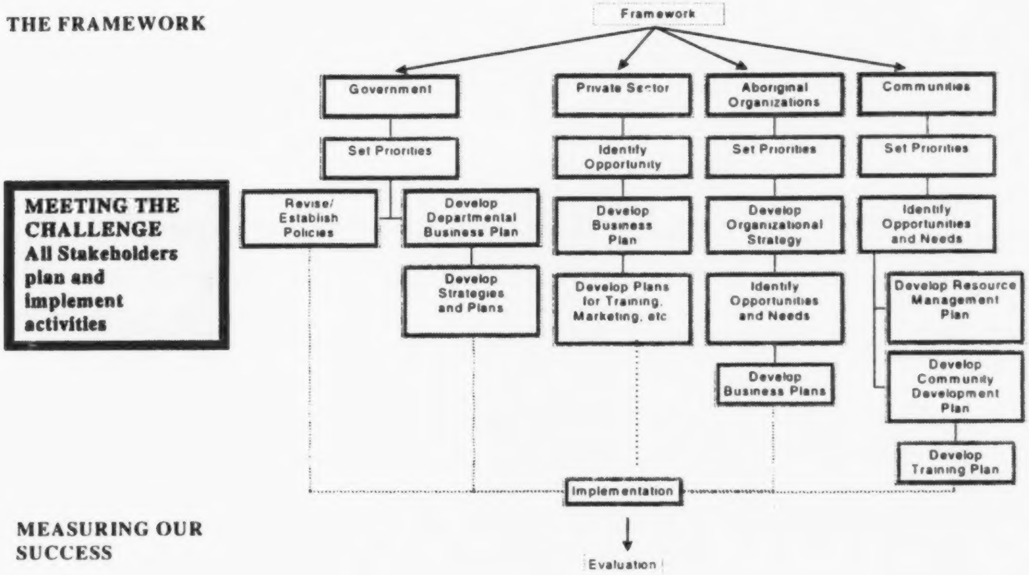
Although in the Northwest Territories Government has a significant responsibility for regulatory and taxation reform, there are a number of outstanding issues that cannot be resolved by the NWT Government alone. Land claimant groups, communities, resource management groups, environmental agencies, Nunavut, the western territory, the federal government and the private sector must all work closely together to design and implement more appropriate laws and policies that will encourage, not hinder, economic activity.

Needs

1) Greater certainty regarding conservation requirements, land access, land leases, division, devolution, land claims, licensing and land management.
2) Greater clarity with respect to the roles and responsibilities of each level of government and other responsible agencies.
3) Simpler regulatory procedures
4) Simpler reporting procedures and better information for businesses regarding their responsibilities.

MEETING THE CHALLENGE

A Coordinated and Integrated Approach to Development


THE FRAMEWORK
Framework
Government
Private Sector
Aboriginal Organizations
Communities
Set Priorities
Identify Opportunity
Set Priorities
Set Priorities
MEETING THE CHALLENGE All Stakeholders plan and implement activities
Revise/ Establish Policies
Develop Departmental Business Plan
Develop Business Plan
Develop Organizational Strategy
Identify Opportunities and Needs
Develop Strategies and Plans
Develop Plans for Training, Marketing, etc
Identify Opportunities and Needs
Develop Resource Management Plan
Develop Business Plans
Develop Community Development Plan
Develop Training Plan
Implementation
MEASURING OUR SUCCESS
Evaluation

This chart illustrates the Framework's flexibility and shows how it may apply to a variety of circumstances, users and strategic and operational planning processes.

A Variety of Circumstances

Sustainable economic growth is a progressive process. Not all communities are at the same stage of development, nor do all communities enjoy the same potential for opportunity, growth and self-sufficiency.

A manufacturing opportunity may appeal to a developed community like Hay River because it has access to relatively affordable business support services, transportation routes and utilities. The community would proceed by developing a plan to investigate each of the Ingredients for Success. The plan may include:

- *securing financing*
- *cost of constructing a plant*
- *availability of land*
- *number of employees required*
- *availability of employees and cost of training*
- *who might buy the product and cost of marketing.*

Once each ingredient had been thoroughly investigated, the community would be able to make a decision on whether to proceed with the opportunity.

The same manufacturing opportunity may have no relevance to a smaller, more remote community like Whale Cove because too many of the Ingredients for Success are missing and it would cost too much to address them all. Instead, Whale Cove may decide to expand the subsistence harvest of caribou, do some primary processing on the meat and sell it to community residents. This would greatly reduce the cost of buying meat at the local store, free up money for other purchases and increase the community's self-sufficiency. However, the community may find it does not have the capacity to support the project. The plan for action would be very different from the plan required in Hay River. In this case, the plan may include:

- *establishing a development corporation to administer the project*
- *refocusing some social assistance dollars to provide funds for training*
- *increasing the community's responsibility for delivering economic development assistance programs so that available dollars could go to help achieve community priorities.*

Similarly, not all sectors are at the same stage of development. Some sectors have more potential for growth and job creation than others. Some sectors will provide more benefits to community economies than others. And certainly, different sectors will require a different mix of partners and ingredients for success.

Mining production is extremely dependent upon the availability of cost-effective infrastructure and support services such as transportation routes, power supply, communication systems, catering services and construction firms. However, individual promotional activities will have virtually no influence on commodity prices which are set by the marketplace or market penetration for the commodity. NWT strategies will be required to encourage the provision of affordable infrastructure and the creation of private sector services that support mining activity.

On the other hand, the arts and crafts sector is not as much concerned with availability of transportation systems and business support services but instead is more concerned with promoting and marketing NWT products and training skilled artisans. For this sector, strategies should focus on marketing, developing products that meet market demand and expectations and training in skill development and quality control.

A Variety of Users

Government

The Government of the Northwest Territories will use this Framework to fulfil its responsibility for creating a sustainable and viable economy.

We are committed to ensuring that resources are utilized in ways that provide the greatest benefit to northerners; that the education system prepares residents for the future; that new investment is encouraged; that expenditures for public infrastructure support development; that markets are accessible and new marketing opportunities are pursued; that regulatory regimes protect our resources but do not frustrate suitable development initiatives; and that the tax system motivates growth and job creation.

The GNWT has already undertaken a number of activities to address some of the issues in the Framework for which it is responsible. Examples include the Northern Employment Strategy, the Regulatory Reform Review and the Access to Capital Initiative. In these cases, the Framework provides valuable information to assist in formulating new expenditure priorities and recommendations for change.

In addition, individual departments can use the Framework to help develop annual business plans. Within each department's areas of responsibility, strategies and plans are to be developed to address development needs and policy gaps as identified in the Framework.

In this way, the Framework will help focus and coordinate the government's limited resources, reduce overlap and duplication among departments, develop cost-effective and innovative ways of addressing economic needs, and encourage partnerships among departments and with other stakeholders.

Figure G shows how government may choose to address needs identified in the Framework and help to satisfy it's responsibility to create a business climate that encourages investment and assists other stakeholders to create new jobs.

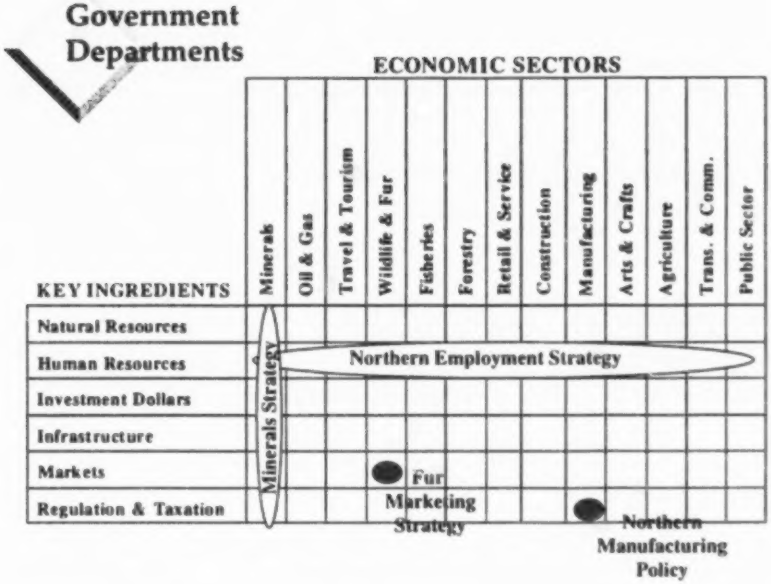

Government Departments
ECONOMIC SECTORS
Minerals
Oil & Gas
Travel & Tourism
Wildlife & Fur
Fisheries
Forestry
Retail & Service
Construction
Manufacturing
Arts & Crafts
Agriculture
Trans. & Comm.
Public Sector
KEY INGREDIENTS
Natural Resources
Human Resources
Investment Dollars
Infrastructure
Markets
Regulation & Taxation
Minerals Strategy
Northern Employment Strategy
Fur Marketing Strategy
Northern Manufacturing Policy

Figure G

14

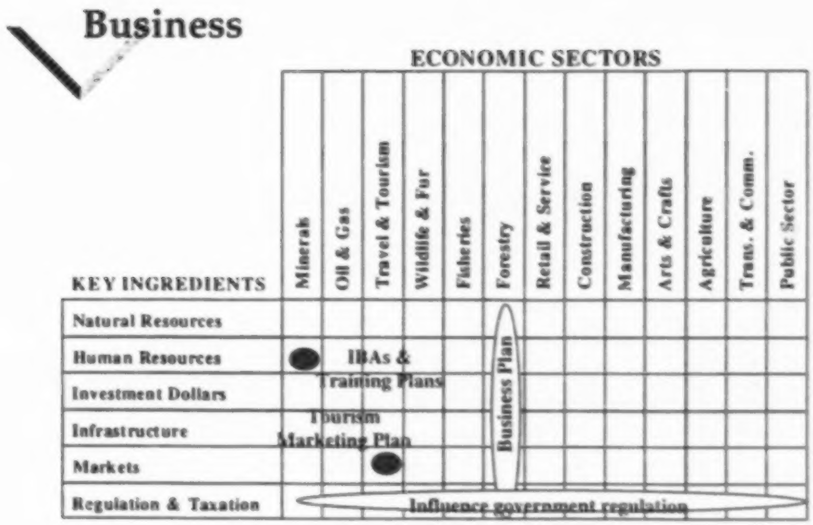
Private Sector and Aboriginal Organizations

In the past, private sector and aboriginal organizations have felt that the risk associated with planning and implementing some development activities has been too high because of uncertainty and inconsistency in government policies and priorities. The Framework will provide other stakeholders with greater confidence regarding government's commitment to economic improvement. A more consistent and focused approach to economic development by government has a better chance of encouraging development activities by industry and business. The Framework also provides a better understanding of the roles and responsibilities of stakeholders.

With this knowledge, private sector and aboriginal organizations can identify opportunities for collaboration, sharing knowledge, resources and responsibilities.

Figure H shows examples of where increased cooperation can result in benefits to Government, private sector and aboriginal organizations.

Figure H


Business
ECONOMIC SECTORS
Minerals
Oil & Gas
Travel & Tourism
Wildlife & Fur
Fisheries
Forestry
Retail & Service
Construction
Manufacturing
Arts & Crafts
Agriculture
Trans. & Comm.
Public Sector
KEY INGREDIENTS
Natural Resources
Human Resources
Investment Dollars
Infrastructure
Markets
Regulation & Taxation
IBAs & Training Plans
Tourism Marketing Plan
Business Plan
Influence government regulation

Communities

As communities become more responsible for identifying their own priorities for development and deciding how to best use their traditional lands and resources, it is critical that they have solid economic information to help set priorities and make spending decisions. The Framework will help communities identify which sectors provide the best potential for development within their own circumstances.

Once the opportunities have been identified, the analytical process and sector information can be used to initiate community and regional economic development strategies. The six ingredients for success are as relevant to a specific business opportunity as they are to an entire sector.

Figure I shows how a community can apply the approach to analyze the needs associated with a specific opportunity.

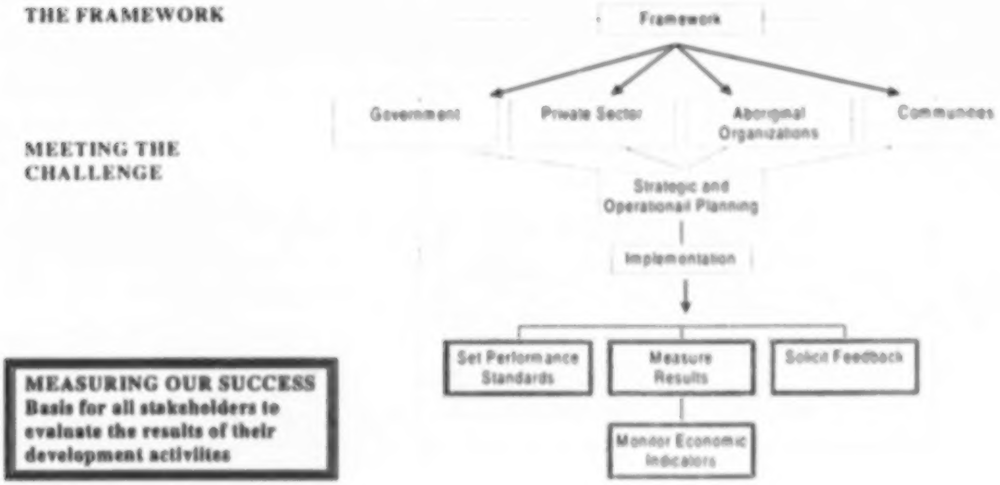
Figure I

After considering the opportunities and needs outlined in the Framework and sector profiles, a community has decided that manufacturing may present a viable opportunity to create new jobs for residents and bring new income into the community. Under each ingredient for success, it has identified the issues that need to be addressed. The next step is to determine whether the needs can be addressed and at what cost. Depending on the outcome, the community can decide whether the enterprise is worth pursuing.

	Establish a small plant to manufacture materials used by the construction industry such as windows, doors, cabinets and tanks. A minimum of 8 people will be employed at full capacity.	
Natural Resources	– regular access to consistent quality lumber	
Human Resources	– business planner – manager – administration officer	- production staff - technical support staff - skill development and training
Investment Dollars	– develop business plan – incorporate business – commercial building – specialized industrial equipment	- marketing - inventory - training
Infrastructure	– accessible transportation routes to get products to buyers	- accessible and affordable power and water supply
Market Development	– market research – product development – pricing	- promotion - contracts
Regulation & Taxation	– incorporation – WCB – GST – Revenue Canada – land use permits – hazardous goods – building code	- safety - health - fire - contract security - loan security - insurance - business licensees

MEASURING OUR SUCCESS

A Coordinated and Integrated Approach to Development


THE FRAMEWORK
MEETING THE CHALLENGE
MEASURING OUR SUCCESS
Basis for all stakeholders to evaluate the results of their development activities
Framework
Government
Private Sector
Aboriginal Organizations
Communities
Strategic and Operational Planning
Implementation
Set Performance Standards
Measure Results
Solicit Feedback
Monitor Economic Indicators

This chart shows examples of how all stakeholders can monitor the effectiveness of activities and how this information allows the stakeholders to be more responsive to new needs and opportunities.

This Framework encourages all stakeholders to work in partnership toward a self-reliant and productive future. A healthy economy will depend on all stakeholders - government, private sector, aboriginal organizations, communities and individuals - supporting this vision and turning goals into actions and reality.

But the responsibility does not end with actions. It must determine whether the actions and expenditures are actually addressing current needs and opportunities and whether a vision of self-sufficiency is being achieved.

The economy is constantly changing. Opportunities and needs that are relevant today may not be relevant several years into the future. The Framework is designed as a working document that will reflects changes and recognize new opportunities and needs.

As circumstances change over the next few years and stakeholders address current opportunities and needs, Government will be responsible for updating the economic information and monitoring sector performance. The same analytical approach can be applied as circumstances change, and strategic and operational planning initiatives can respond.

In addition, each stakeholder is responsible for their commitment to economic improvement and for monitoring the effectiveness of the identified activities. For government's part, and other stakeholders, the Framework provides a basis for monitoring the effectiveness of programs. The GNWT will monitor the effect of its programs on the economy and seek input from clients regarding levels of satisfaction. The GNWT will use this information to revise programs so they are more responsive to overall priorities and client needs and expectations.

Ultimately, the GNWT believes a healthier economic future can be achieved. The Framework is a tool to promote joint economic planning and development between government, communities, and the private sector to help achieve that future.

APPENDIX A

The Matrix Worksheet
A Summary of Needs and Opportunities by Sector

The Matrix Worksheet shows the advantages and opportunities within each sector of the economy. It also identifies what is needed to improve the viability of each sector. This information is supported by the discussion on each sector in the sector summaries and sector profiles. Through this worksheet, a number of issues emerged which are common to all, or most sectors. This information is presented in more detail in Focusing the Issues.

★ indicates an advantage, opportunity
- indicates a development need, requirement

	Minerals
Natural Resources	★ high geological potential in the Slave Geological Province and some opportunities in the Keewatin - needs resource inventories and geological mapping
Human Resources	★ uses variety of skills ★ supports job creation in other sectors - needs training in grubstaking, prospecting, small business, career awareness
Investment Dollars	★ industry is willing to provide required investment - intense global competition for investment dollars
Infrastructure	★ creates infrastructure that supports other sectors - needs increased infrastructure to attract more exploration and make development more economical
Market Development	★ commodity prices set by marketplace - need to market NWT as "open for business"
Regulations & Taxation	- needs certainty re: conservation initiatives, land access, division, devolution, land claims, land management - need simplified environmental and permitting processes - need clarity re: roles and responsibilities of each level of gov't

	Oil & Gas
Natural Resources	★ high reserves of both oil and natural gas from Deh Cho to the Mackenzie Delta/Beaufort Sea - needs better inventories and knowledge of petroleum geology
Human Resources	★ uses variety of skills ★ supports job creation in other sectors - needs training in basic education, job specific skills, technology, career awareness
Investment Dollars	★ industry is willing to provide required investment - intense global competition for investment dollars
Infrastructure	★ creates infrastructure that supports other sectors - needs increased infrastructure (eg. pipeline) to attract more exploration and make development more economical
Market Development	★ commodity prices set by marketplace - need to market NWT as "open for business"
Regulations & Taxation	- needs certainty re: conservation initiatives, land access, division, devolution, land claims, land management - need simplified environmental and permitting processes - need clarity re: roles and responsibilities of each level of gov't

	Travel & Tourism
Natural Resources	★ vast natural beauty, wildlife and culture ★ promotes non-consumptive use of resources ★ opportunities in most communities
Human Resources	★ often uses and teaches traditional skills and knowledge - needs training to match market demand, career awareness - needs occupational standards
Investment Dollars	- needs to attract investment that matches products to demand - needs flexible financing and repayment arrangements - needs funds to participate in cooperative programs, assist emerging operators
Infrastructure	★ benefits from more and better infrastructure ★ private sector provides basic infrastructure - needs tourist attractions, brand name destinations (i.e. parks)
Market Development	★ growing and stable markets (adventure travel, eco-tourism) ★ higher-spending tourists in Nunavut, more road traveling tourists in West - needs awareness marketing - needs reliable visitation and market statistics - needs improved packaging
Regulations & Taxation	★ licensing promotes and maintains product quality - need clarification of licensing responsibilities - need security regarding land leases

	Wildlife & Fur
Natural Resources	★ varied and unique species across the NWT ★ diversity of uses - subsistence, commercial, sport hunting - needs resource inventories and information - needs effective means of assigning value to resources
Human Resources	★ often uses and teaches traditional skills and knowledge ★ jobs linked to other sectors (i.e. tourism) ★ potential for opportunities in subsistence harvesting and value added processing - needs training in meat inspection, humane trapping and pelt handling
Investment Dollars	★ often equipment is available at the household level - needs large up-front investment for commercial harvesting and primary meat processing - needs flexible financing and repayment arrangements
Infrastructure	★ infrastructure already exists to support subsistence harvests and commercial meat processing - needs more appropriate infrastructure (mobile) for harvesting & processing and secondary processing of fur
Market Development	- needs to cultivate demand and counter negative perceptions - needs to expand products and packaging - needs to implement quality control and maintain uniqueness
Regulations & Taxation	★ well established co-management groups ★ subsistence harvesting is self-regulated - need commercial meat regulations, federal meat inspection - need certainty re: conservation, land access, licenses and leases - need clarity re: roles, responsibilities of different gov'ts

	Fisheries
Natural Resources	★ diversity of uses - subsistence, commercial and sport fishing ★ good potential in Baffin for shrimp, scallops, halibut - low stocks compared to other jurisdictions - whitefish stock on Great Slave Lake at maximum harvest level - char is often commercially inaccessible - needs improved biological assessments
Human Resources	- needs to improve basic level education - needs training in job specific skills, technology, fish handling, processing and plant management - needs to encourage participation by younger generation
Investment Dollars	- needs high up front investment for commercial fishing and processing
Infrastructure	★ commercial fishing and processing facilities exist through the NWT DevCorp ★ community infrastructure exists for subsistence fishing - needs affordable, competitive transportation for commercial fishing - needs community infrastructure for subsistence
Market Development	- needs regular supply and consistent quality to encourage market penetration - needs improved distribution networks - commercial fishing needs high level of subsidies to maintain competitiveness
Regulations & Taxation	- need clarity regarding roles, responsibilities of levels of government and agencies (FFMC)

	Forestry
Natural Resources	★ significant forest resources in southwest section of the NWT - Liard Valley and South Slave, limited resources in Mackenzie Delta - needs resource inventories and information
Human Resources	- needs technical training for subsistence and commercial harvesting - needs training in forest management practices and skills - needs business management training - needs awareness training
Investment Dollars	- commercial harvesting needs large, up front investment - subsistence harvesting needs portable mills - relatively significant up front investment
Infrastructure	★ some infrastructure already exists through the NWT DevCorp (sawmill) - needs affordable, competitive transportation routes - needs community infrastructure (portable mills) for subsistence harvesting
Market Development	★ strong domestic market for building materials - price controlled by commodity markets
Regulations & Taxation	- need certainty re: conservation, land access, licenses and leases - need clarity re: roles, responsibilities of different gov'ts, land claims organizations

	Trade & Services
Natural Resources	Not directly applicable but relies on healthy resource sectors
Human Resources	★ high demand in computer and technical trades - needs to improve basic level education - needs to improve level of student hire - needs to enhance entrepreneurship and business skills in smaller communities
Investment Dollars	- needs to improve access to capital in smaller communities - needs flexible financing and repayment arrangements
Infrastructure	- needs to provide support services, utilities, transportation and communications at reasonable cost
Market Development	★ opportunities created through mineral activity, division and import replacement - needs to improve income distribution - 75% of NWT trade and service markets exist in 8 communities
Regulations & Taxation	★ low income and corporate taxes ★ no sales tax - need to improve consumer confidence - need to simplify paper burden, gov't reporting procedures and provide better information to business/industry - need security re: land leases

	Construction
Natural Resources	Not directly applicable but relies heavily on healthy non-renewable resource sectors ★ some materials available in NWT - others need to be imported
Human Resources	★ uses and teaches a variety of skills ★ appeal of apprenticeship training is growing steadily - needs training in a variety of trades - need partnerships with gov't and business for apprenticeship training
Investment Dollars	- needs high capital investment and operating funds - needs flexible financing and repayment arrangements
Infrastructure	- needs to provide support services, utilities, transportation and communications at reasonable cost
Market Development	★ opportunities created through division and mining activity ★ some opportunity to market technology and expertise internationally - needs to address small, fractured domestic markets - needs to deal with GNWT cutbacks
Regulations & Taxation	★ BIP and negotiated contracts have aided NWT based firms - need security re: land leases, access to land - need lower WCB rates - need to simplify paperwork, reporting processes by several levels of government

	Manufacturing
Natural Resources	Not directly applicable ★ some raw materials found in NWT - others need to be imported
Human Resources	★ uses and teaches a variety of skills ★ variety of work arrangements ★ variety of training options - needs training in variety of skills - needs partnerships with employers for training programs
Investment Dollars	- needs large up-front investment - needs flexible financing and repayment arrangements
Infrastructure	- needs to provide business services, utilities, transportation and communications at reasonable cost - needs competitive advantages to appeal to larger, export initiatives
Market Development	★ growing domestic market (i.e. import replacement, increasing population) - needs to identify domestic market opportunities - needs to address small, fractured domestic market
Regulations & Taxation	★ low corporate tax rate ★ BIP offers some specific incentives to northern business - need to pursue new manufacturing directive - need retention and attraction programs (beyond what BIP offers) - need security re: land leases - need lower power and WCB rates - need to simplify paperwork, reporting processes by several levels of government

	Arts & Crafts
Natural Resources	Not directly applicable ★ some raw materials found in NWT - others need to be imported ★ varied and unique materials for craft production - needs consistent, good quality supply of raw materials at reasonable cost N/A for emerging arts
Human Resources	★ opportunities to work at home, stay in communities, supplement income, use traditional skills and knowledge - needs training re: market demand, promotion, product development and quality control - needs to encourage younger generation to participate
Investment Dollars	★ does not require a significant capital investment ★ significant investment made by land claim organizations and private sector - needs ongoing investment for awareness, product development, marketing, assistance to individuals
Infrastructure	★ production, marketing and retailing activities, facilities through the NWT DevCorp ★ marketing opportunities through Internet ★ private sector galleries and retail outlets
Market Development	★ already penetrated international markets, especially for fine art ★ interrelationship with tourism industry - needs "branding" - postioning unique, identifiable products in the marketplace - needs better information re: production and sales - needs improved distribution networks
Regulations & Taxation	- vulnerable to import regulations (i.e. exporting polar bear hides, baleen and ivory to US, US Marine Mammals Protection Act)

	Agriculture
Natural Resources	- needs access to land
Human Resources	- needs training and knowledge in a variety of skills (production to processing) - needs strong personal commitment
Investment Dollars	- needs large up front investment for commercial production
Infrastructure	★ abattoir exists in Hay River - needs available and affordable transportation links to markets
Markets Development	- significant competition from southern producers - no economies of scale in NWT
Regulations & Taxation	- needs to resolve land access

	Transportation & Communications
Natural Resources	Not directly applicable
Human Resources	★ utilizes a variety of skills - needs a variety of training (technical, management, etc.)
Investment Dollars	★ generally, industry is willing to provide required investment - needs huge up front investment
Infrastructure	- needs affordable and available infrastructure
Market Development	★ increasing domestic markets for technological advances (computers, etc.) - high competition for products (i.e. telephone vs. Internet)
Regulations & Taxation	- needs more consumer, investor confidence - highly regulated industries, often federal jurisdiction

	Public Sector
Natural Resources	Relies on wealth created by the economy (foundation is the natural resource sectors) to generate revenue through taxes, fees and royalties
Human Resources	★ division creates opportunities for local hire in Nunavut - needs to improve aboriginal representation in public service - needs to improve basic education levels
Investment Dollars	- needs better coordination with feds regarding programs and responsibilities - needs to focus and coordinate priorities and spending - needs to establish partnerships with feds, industry, communities to leverage more funding, focus spending
Infrastructure	★ community empowerment provides better coordination and use of local infrastructure ★ division creates new infrastructure - needs to maintain interest in provision of appropriate and affordable infrastructure
Market Development	- need continued awareness marketing initiatives - awareness, positive business environment - government, as a market for small business, goods and services, etc. is declining
Regulations & Taxation	★ low corporate and personal tax rates ★ no new taxes anticipated - needs to create positive investment climate - need control over mineral resource - needs to balance development with conservation

BIP - A NEW DIRECTION
SUMMARY OF PUBLIC CONSULTATION

	LABOUR REBATE	**TAX INCENTIVE**	**DEF: NORTHERN BUSINESS**	**CURRENT BIP**	**OTHER**
NWT Municipalities	• This was an information session and no comments were provided.	This was an information session and no comments were provided.	• This was an information session and no comments were provided.	• This was an information session and no comments were provided.	• This was an information session and no comments were provided.
Ministers Information Session to NWT Businesses	• This was an information session and no comments were provided.	• This was an information session and no comments were provided.	• This was an information session and no comments were provided.	• This was an information session and no comments were provided.	• This was an information session and no comments were provided.
Deh Cho Region (Fort Simpson)	• Yes, in favour of labour and training rebates for northern residents. • A formula driven rebate reported once a year would result in benefits of the rebate being realized approximately 18 months after the investment.	• No, taxes do not kick in until the business is making a profit. • Change the threshold of a small business under the tax system from $200,000 to $400,000 to match the national trend.	• Enforce the northern residency.	• BIP benefits the construction sector to quite a degree. • Contract administration side is not enforcing the terms and conditions in contracts. • Use of the list is not being done consistently. • Too much paperwork. • Ownership definition. • Reduce the paperwork on the contract administration side. • Improve the posting of contracts and bids to ensure greater transparency of the system. • Better enforcement. • Keep it simple. • GNWT employees who do purchasing should first attend a "purchasing course" which indicates to them the benefits of local, regional and territorial purchasing. Their "purchasing authority" should not be provided until the course is completed. It could possibly be part of the orientation provided. • Pay business by credit card; add 1.7% Visa service charges to the payment to the business. • Recognize different sectors have different needs. • Strengthen BIP, don't scrap it. We need a procurement policy. Keep the BIP.	• Subsidies to cover municipal charges like land taxes, water and power rates.

	LABOUR REBATE	TAX INCENTIVE	DEF: NORTHERN BUSINESS	CURRENT BIP	OTHER
Inuvik Region (Inuvik and Tuktoyaktuk)	• Blend tax and labour. • Different labour rebates for different industries; could be based on target sector for development, or sector that provides higher import on local economies. • What rate would be fair? Would have to be fairly substantial to equal 20% bid adjustment. • Labour rebates should be based on level of community (level 1,2,3); different rates. • Joint labour pool program with Yukon and Nunavut; everyone will be hired with Oil and Gas so we would be getting employees from south anyway. • Labour rebates are defeated by seasonal nature of employment. • Recommend that the NWT consumer price index be distributed to all communities to help them determine reasonable rates.	• Communities have to pay more for every direct cost fuel/power/labour/materials/rent/phone/inventory. Rather than providing only wage rebates the subsidies should be extended to include overhead/operational costs that could equalize the playing field (CPI). • Lower tax from 5% to zero or get rebate in a contract by contract basis once you submit paperwork. • Give tax breaks but not to grandfathered companies.	• No comments.	• 5% bid adjustment doesn't matter to a large company but really matters to small communities. • Very simple to administer – any changes will make it more onerous and will have to start relying on people's judgements, which can vary. • Different departments' interpretation of northern residency is inconsistent. • Additional incentive for land claimant groups within their own area. • Subsidize operating costs and indexing smaller communities. • The current BIP should be maintained; some businesses would never exist without BIP.	• No comment
North Slave Region (Yellowknife)	• Labour rebate should not be part of the BIP. • The proposed labour rebate would hurt retailers.	• Tax incentive is not an appropriate tool because most small businesses do not make the threshold profit. • Tax incentives should not be part of BIP.	• The definition of a northern business needs to be tightened up but no clear suggestions were provided.	• Bid forms are too complicated and should be simplified. • Contracting evaluations are not transparent. • Contract authorities need to be trained. • Small businesses need the BIP to survive. • Grandfather clause should be removed. • Too many loopholes in the BIP but not sure how to plug them. • Government asks industry to provide too many forms for registration. • Industry should be involved in the design and implementation of the BIP. • Yes, the current BIP should be maintained but fixed.	• No comment
Sahtu Region (Norman Wells)	• Weathered out; public information session rescheduled for first week of April 2001	Weathered out; public information session rescheduled for first week of April 2001	• Weathered out; public information session rescheduled for first week of April 2001	• Weathered out; public information session rescheduled for first week of April 2001	• Weathered out; public information session rescheduled for first week of April 2001

	LABOUR REBATE	TAX INCENTIVE	DEF: NORTHERN BUSINESS	CURRENT BIP	OTHER
South Slave (Hay River and Fort Smith)	• The labour rebate is not an appropriate tool.	• Tax based incentive is not an appropriate tool but liked the threshold for small businesses being increased from $200,000 to $400,000. • Don't mix taxes with BIP.	• Should be 51% northern ownership. • Minimum capital assets in the NWT. • Set percentage of payroll in NWT. • Majority of business decisions made in the north. • Proof: WCB; taxes filed in the NWT (Corporate/Business); Driver's License; primary residence; registered with payroll tax; northern banking. • Should be monitored by having Registration BIP representatives full time; rules/guidelines are made clearer for equitable interpretation. • The BIP Monitoring Office should review all tender evaluations before award. • Penalties and enforcement should be strengthened. • Should be 51% northern ownership • Set percentage of NWT payroll • Business decisions made in the north. • Minimum capital investment. • Proof: WCB; driver's license; heath care card; primary residence; registered with payroll tax; must provide services to general public. • Should be full time BIP representative in each region; • penalties and enforcement should be strengthened.	• 15% bid adjustment works. • Storefronts should not be allowed; ownership of as business not transferable to a new resident; 5% local adjustment. • Improvements: "police" it better; improve contract administration; there should be a cap on dollar value for the application of BIP, do companies bidding on a $5 million dollar contract really need to have the BIP application; tender and proposal evaluation results should be published. • Yes the current BIP should be maintained. • Businesses like the bid adjustment because it is simple; businesses should be recognized for good business practices. • Storefronts should not be allowed; defining a northern business. • Improvement: "police" it better; improving the contract administration side; tender and proposal evaluation results should be published. • Yes, the current BIP should be maintained.	• Annual registration fee based on employee size. • Do not turn BIP into a social program.
Private Sector	**South Slave:** • not appropriate for certain industry (aviation) • does not help retailers • support training of labour force but not labour rebate **Deh Cho**: • Does not work for retailers. **North Slave:** • should not be part of BIP • true northern businesses hire northern; labour rebate only encourages southern • There are not enough skilled people available in the north. • Create a Maximizing Northern Employment Division in Finance to administer the payroll	**South Slave:** • Any cost reduction important to business but does not believe this issue will benefit many businesses in smaller communities. • This could negatively impact the GNWT tax revenue received. • GNWT should lower taxes anyway like other jurisdictions. **Deh Cho:** • Does little to encourage new small business. **North Slave:** • reasonable taxes should be levied on all corporations not just cut taxes; rebates could be escalated based on northern	**South Slave**: • need to tighten definition; • should be based on majority reinvestment and business functions in the NWT • majority shareholders must be NWT residents • majority of reinvestment in the NWT • majority of income earned in the NWT • majority of business functions in the NWT • registered with Department of Justice • majority of revenue must come from the public • no storefronts allowed • NWT value added should be a factor **Deh Cho:** • No comment	**South Slave:** • BIP has improved their quality of life; • works fine; • grandfathered clause should be removed; • needs to be fixed but not replaced; • the name should be changed • The policy should be more transparent. • Northern businesses need the BIP. • BIP does not work effectively because there is minimal, if any, risk or penalty for abuse; businesses that abuse should lose the benefit. • Manufacturers at different levels are being offered same consideration (25%). • Does not support the discussion paper; supports keeping the current BIP by increasing monitoring.	**South Slave:** • Wording in contract documents cost businesses money; bonding; bid security; • The BIP should be linked to contracting opportunities. • Those approved under BIP agree to allow GNWT to disclose figures to the general public. • Devolution of purchasing power to departments has led to decrease in expertise **Deh Cho:** • The discussion paper was very confusing. **North Slave:** • Big companies come up from down south and taking over (under bid) on all the jobs; not enough work for all the businesses. • Businesses that are 100% NWT owned should get 20% adjustment; businesses that

	LABOUR REBATE	TAX INCENTIVE	DEF: NORTHERN BUSINESS	CURRENT BIP	OTHER
	tax, northern payroll rebate, and monitor current socio-economic agreements. • The GNWT should cost share the employment of graduates with the private sector. • Might be too costly. • Labour rebates would be measurable however percentage should reflect cost of living in the north. • Is the labour threshold going to be industry sensitive? • More GNWT dollars may flow south (overhead and profits) since southern businesses would have the same competitive edge. • Training should not be part of BIP; policies for such already in place. • Specifics need to be developed on exactly who the labour rebate proposals apply to (third agencies as well?). **Sahtu:** • No comment **Inuvik:** • No comment	economic development • Does not support any tax credit system that is not measurably performance based. • Eliminate corporate income tax. • A tax structure could be set up based on credits to northern companies based in the NWT; tax outside businesses. • Zero % tax rates would likely encourage companies to relocate in the NWT but would eliminate revenue. • Mechanism in place so newly incorporated businesses cannot storefront in the north. • Tax credit approach could be measured. • Tax credit should be directly tied to the level of investment in the NWT. **Sahtu:** • No comment **Inuvik:** • No comment	**North Slave:** • Proposed changes do not touch on issue of ownership. If focus is on spending in the NWT perhaps it is irrelevant where ownership is; business must be registered in the NWT, employ NWT residents and pay NWT corporate taxes. • Exclusively owned and operated by full time northern residents; in excess of 51% of assets located north of sixty; majority of employees active north of sixty. • Southern owned businesses should not be eligible under the BIP. **Sahtu:** • No comment **Inuvik:** • No comment	**Deh Cho:** • Bid adjustments important to local suppliers; could make or break them. • The question for GNWT should be "not what do we replace the BIP with, but rather how do we augment the procurement aspects of the BIP with other broader incentives for northern businesses. • Government employees need more training. • The discussion paper does not make a convincing case to eradicate a government procurement policy that provides incentives for businesses to invest into the North. • BIP doesn't work because GNWT hires southerners • Policy too difficult; straight forward – only northern businesses get contracts **North Slave:** • Trying to serve too many masters • 20% is a definite advantage; hard for southern to compete with it. • BIP has changed from what it originally was set up for; to help true northern businesses not open doors to southern. • Northern businesses need BIP. • BIP should be discontinued because it creates an increased cost of doing business (GNWT does not get best possible price – have to pay for the adjustment) • High costs to administer BIP (costs related to so many committees and staff involved on the committees). • Majority voting shares may be northern but financing comes from south and therefore dividends and interest flows south. • Technology allows majority of the administration and management to be done south. • Beneficiaries cannot be truly identified; contributes to inefficiencies in northern business. • BIP promotes the inefficiencies of businesses by allowing those businesses to totally depend on the GNWT.	are 51% NWT owned should only get 10%. • Joint aboriginal businesses are storefronts; majority of business functions south of 60; should not be eligible just because the paperwork shows 51% aboriginal or northern. • A northern policy should reward environmentally friendly and energy efficient enterprises and encourage Northern manufacturing. • Free trade agreements will eventually impose on the North. • Three territories should try to work together on economic and social development. • Even though the GNWT economic activities only represent 7%, in some sectors, governmental purchases and contracts are critical. • A fair wage for northerners is needed. • Diamond mines do not necessarily support northern residents. • General contractors win tenders and then sub contract the work down south. • BIP is a tool for southern businesses to establish false joint ventures or corporations (storefronts). • Tying unemployment and economic development in a proposed new policy is distasteful. • Hire north has always been the priority of the private sector (costs beneficial). • Strongly disagree with using credit cards for purchases (extremely costly interest charges and administrative nightmare). • GNWT needs are too numerous and complex to incorporate in one policy. • Policing BIP and training policies is a hidden cost to taxpayers. • Proposed changes would reduce administrative burden and remove contracting departments from having to police and enforce unpopular policy. • Changes encourage NWT businesses to expand markets outside of NWT. • New policy should eliminate reference to other directive associated within the policy, namely the Interim Manufacturing Directive and Local Accommodation directive. **Sahtu:**

	LABOUR REBATE	TAX INCENTIVE	DEF: NORTHERN BUSINESS	CURRENT BIP	OTHER
				• The BIP should be discontinued and the GNWT departments and agencies should include in its business plan a strategy for supporting the macro-economic policy of the GNWT. • Appears to contravene the Canadian Charter of Rights and Freedoms and probably NAFTA. • Strengthen the current policy by inviting the private sector to participate in redefining Northern Business. • Establish an ongoing Public/Private sector panel to review BIP applications. • BIP should be scrapped entirely. • Removing the BIP would get more competitive bids due to the removal of restrictions on southern companies. • BIP registry should be kept confidential and internal and should be used to monitor socio-economic agreements. • A revised BIP could be an effective tool. **Sahtu:** • No comment **Inuvik:** • No comment	• No comment **Inuvik:** • Not much comment; everything looks good.
Interest Groups	**NWTCC** • There is no place for these strategies to be played out in the BIP. Tax breaks or benefits are always welcome by business, but have no place in the BIP. **YKCC** • No comment as the association is focusing on the definition of a northern business. **NWTCA** • Labour policies should not be part of the BIP. **NMA** • NWT Manufacturers would welcome government consideration of subsidy proposals geared to the manufacturing sector which provide on going support and allows them to be more competitive to southern manufacturers who do not incur the higher cost.	**NWTCC** • No comment. **YKCC** • No comment. **NWTCA** • Tax credits and tax rate reductions are worthy considerations but may be ineffective depending on other jurisdictions. **NMA** • Many NWT manufacturers realize minimal profits and therefore tax based initiatives such as proposed would have minimal impact on them. • While a tax credit or rebate should not be ruled out it is suggested that a tax initiative aimed at the consumer would be more effective in developing the market for Northern Manufactured Products. • As a GST is the only direct	**NWTCC** • A joint committee of business and government should revisit the definition of a northern business. **YKCC** • Any business doing business from a northern premise is a northern business. • A BIP should be clearly visible and available to any business northern or not, as an encouragement to do business here. • Based on a measure of the economic contribution that company makes into the northern economy. A value based point system – a business could have its economic impact quantified and applied to the BIP rating it receives. This could possibly be a multiplier formula wherein suppliers are included on a multiplier basis bossting the prime companies value measure, and rewarding both the prime supplier and the sub-suppliers for their efforts.	**NWTCC** • Revisit the definition of northern business by GNWT and business. **YKCC** • BIP's intrusion into the management decisions that only business owners should be making. • The BIP is no place for political agendas to be played out. • BIP causes regional barriers through the local 5% local bid adjustment. • Make sure we build accountability for honest and accurate reporting into the BIP. **NWTCA** • Northern businesses need the BIP. • The BIP is too complex; has too many loopholes; not enough monitoring; has cumbersome rules; contractors find it difficult to choose tenders; the rules keep changing; and there is inconsistent application of the BIP between departments.	**NWTCC** • Approach the BIP as a sliding scale to be inclusive rather than exclusive in nature of the present policy. • Have all businesses reapply under a new BIP and have the joint business and government groups operate and maintain the system. **YKCC** • Work to create the right environment for business to develop and grow. • Focus the purpose of a BIP on economic benefits. • Use verifiable indicators of economic impact as the only fair and reasonable measurement of the benefit derived from business activity. • Expand the definition of a northern business to be inclusive not exclusive. • Do not allow political agendas to creep into the BIP. • Remove the regional barriers to business. • Build accountability.

	LABOUR REBATE	TAX INCENTIVE	DEF: NORTHERN BUSINESS	CURRENT BIP	OTHER
	CFIB • Was in favour of the increase in skilled labour force but did not comment directly on the labour rebate; they did not survey their members on labour rebate.	consumer tax in the NWT the initiative might involve a rebate to the consumer of part or all of the GST. CFIB • There should be no corporate tax and this should apply to all businesses operating in the NWT.	**NWTCA** • Amount of business handled in the north, and reporting income and paying taxes in the NWT (a graduated system). • Agree with the definition of a northern business in the current policy. **NMA** • Resident in and invest in the economy of the NWT subject to certain trade agreements. • Majority of owners must be resident in the NWT. • Implement a user fee for companies to register as a NWT business, and that the fee be applied to the monitoring and enforcing of these provisions. **CFIB** • Members not surveyed on this issue.	• Yes, the current BIP should be maintained but the loopholes need to be fixed. • There should be a joint committee between government and private sector to design and implement a revised policy. **NMA** • A 5% spread in preference is not sufficient to level the playing between a northern supplier and a northern manufacturer. • Get government contract authorities, other businesses and the public to purchase northern manufactured products. • The requirements of the Interim Manufacturing Directive and the BIP are often neglected by the GNWT's contracting authorities in implementing their buying procedures and decisions. • The government's purchasing and contracting has been decentralized and devolved to such a degree, and so many people now exercising purchasing authority that: 1) lack of purchasing skills and knowledge of the government's purchasing policies; and 2) there is a loss of purchasing power, and the economies of scale in purchasing which are essential to effectiveness and efficiency in purchasing and contracting the government's requirements and to the government exercising that power in support of the northern manufacturing industry. • Had it not been for the BIP, companies would not be resident in the NWT. • Yes, government purchasing is an important issue in supporting the development of the manufacturing sector. **CFIB** • The current BIP only covers a small amount of businesses.	• Minimize the cost of administration to the business. It is the government and the public as a whole that benefits most from success in the BIP and the cost of implementation and administration should be borne by the GNWT as an investment in our common future. **NWTCA** • BIP committees should hold regularly scheduled meetings. • A committee of business and GNWT should be struck to register businesses. **NMA** • A GNWT purchasing policy which provides preference to NWT based manufacturers should continue to be one of the tools in the GNWT's BIP. • GNWT should continue to have a policy to all NWT resident businesses and should apply to all organizations that receive significant funding from the GNWT. • The policy should require that northern manufactured products be specified where available and contract authorities must show that nominated products do not meet minimum criteria. • The GNWT and Northern Manufacturers should develop a Northern Manufacturing Strategy. • Residency by business owners in the NWT remain essential under the criteria. • Use of raw materials produced in the NWT be mandatory, where applicable and appropriate. • A user fee be established for businesses registering under the BIP. • The GNWT consider a northern consumption incentive program which offers incentives such as tax rebates to consumers for the purchase of NWT manufactured products. • The GNWT develop subsidy programs geared to the manufacturing industry. • The GNWT and Northern Manufacturers develop a joint marketing program. • GNWT offer financial assistance and investment for innovation and development of northern manufactured products.

	LABOUR REBATE	TAX INCENTIVE	DEF: NORTHERN BUSINESS	CURRENT BIP	OTHER
					• The GNWT provide core operating funding assistance to Northern Manufacturers. **CFIB** • Training of labour force is important since there is a shortage of skilled labour nationally.